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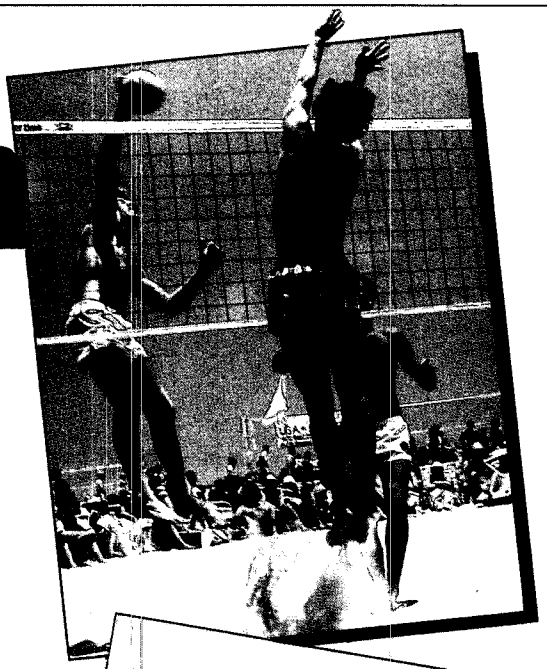

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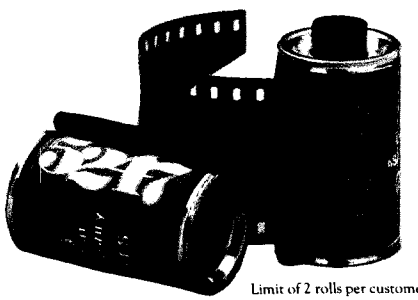

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letters

Foreign Aid Is Moral Aid

Two comments on the February issue: First, while the entire staff is to be congratulated on the beautiful job they did laying out the cover story, it was a sharp disappointment to see the cover story renamed by the editors (without consulting me) from "The KPNLF in Cambodia" to the meaningless "The Khmer in Cambodia." This is like changing the story on the Contras (in the June-July 1984 issue) to "The Nicaraguans in Nicaragua"; and worse, it may confuse the KPNLF (Khmer People's National Liberation Front) with the Khmer Rouge in readers' minds. Further, Sihanouk's followers are not "monarch loyalists," as stated in the story's intro. Sihanouk abandoned his kingship 30 years ago.

Second, in response to those critics whom Bob Poole mentioned in the Notes section, I think it is a perfectly justifiable and moral use of US taxpayers' money to materially and diplomatically support anti-Soviet liberation movements. True, we cannot depend on the government to adequately provide that support. The State Department remains intransigently hostile to, for example, RENAMO in Mozambique and won't actively help UNITA in Angola. The CIA is almost hopelessly inept, wasting, for instance, scores of millions of tax dollars on (not in) Afghanistan, as I reported in the September 1984 issue. Congress is refusing to fund the Contras. In an upcoming issue, I will detail how support for anti-Soviet guerrillas might be "privatized."

Nonetheless, private citizens cannot provide Redeye portable heat-seeking missiles to the Mujaheddin. Neither can private citizens conduct foreign policy. The weaker the Soviet Union is, the safer America is. Providing that safety is the primary and most legitimate function of the federal government. Substantial material assistance (involving no American advisors or combat forces) and firm diplomatic support for armed anti-Soviet insurgencies is the most cost-effective means available to the US government to weaken Soviet power and influence in the world. Only through the diminution of Soviet strength can significant reductions in the defense budget be viably achieved. Assistance to democratic freedom fighters is, for taxpayers' money, an exceptionally worthwhile investment.

Jack Wheeler
Malibu, CA

"War on Drugs," War on People

I discovered your magazine in the spring of 1983, when I was a college freshman. I have found it to be one of the few publications that dares to question the common assumptions that government today operates under.

Without a doubt, economic freedom is of great importance in building a sane, peaceful, and free society. Still, I would ask why other issues of freedom don't get as much attention. I will admit that there isn't a great deal of public debate on such issues as drugs, prostitution, and gambling. Yet, one example of a violation of such freedom is Reagan's "drug war," which we, if we are honest with ourselves, will admit is really a war on people.

There are both practical and philosophical reasons to oppose this militant attempt at drug prohibition. Besides the near-impossibility of halting drug trafficking, we should realize the perspective on the other side of the coin—the farmers! Imagine yourself as a desperately poor South American peasant. Wouldn't you grow marijuana or coca plants that you knew Yanquis were willing to pay well for? The armed goons doing Reagan's bidding can only be seen as instruments of oppression by the poor farmers and their hungry children as they watch their livelihood destroyed.

True, Ronald Reagan pays lip service to laissez-faire government, but he is a statist, and in more than one way.

James Moore
Hendersonville, TN

Who'll Own the Rain?

It was a pleasant surprise to find encouragement for the concept of establishing property rights in aquifers and surface

letters

waters to protect them from pollution ("How to Clean Up Superfund," Feb., p. 20). But this seems somewhat at odds with your recent items downplaying the harmful significance of acid rain and other types of air pollution, thus not recognizing any need for similar property-rights protection in this area. Is there a fundamental difference in protection concepts for flowing water versus flowing gases or rain?

G. G. Olson
Princeton, NJ

Protectionism Down on the Farm

Your January Trends item "Home-Grown Protectionism" moved me to let readers in on another ridiculous interference with trade. Here in the Empire State, we have *county by county* milk-licensing laws, which have created cartels that the laws continue to protect. The buyer of the milk from our farm is situated in New Jersey, for example, and is restricted from selling the milk in the New York City market. The dairy industry in New York state supports, for the most part, this stupid law, which restricts competition, creates artificially high prices, and drives consumption down. What we in the dairy industry need more than anything else is less regulation and more competition. A free market could sove all problems in the industry in a short time.

Gerard Bourgeois
Morris, NY

Kiddo's Kudos

I may be only 12 years old, but I think what you are doing is great. My dad gets REASON, and I always look forward to getting your magazine. The articles are so interesting. When I grow up I will continue my father's and other people's fight for a freer society. And may REASON live for a long time.

W. Brisson
Ballston Spa, NY

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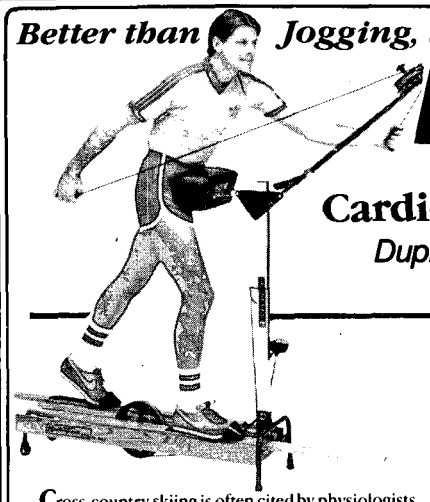

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Robert W. Poole, Jr.

Flatter Than Flat

What began as a promising step toward a less-destructive tax system has collapsed into a morass of uncertainty and complications. The original good idea was the flat-rate tax.

As first proposed, it was simplicity itself. Instead of today's hugely complex personal income tax—with progressively steeper marginal rates the higher your income, but with a bewildering array of deductions and exemptions that counteract the progressiveness while distorting the economy—everyone would pay a single flat rate, with no deductions or exemptions.

Well, politics has taken over. By now, Congress is faced with at least five major "flatter" tax proposals, not one of which embodies the simple ideal. All include at least some exemptions or deductions, thereby opening the door for political bargaining to include others, either now or in the future. Most include *several* tax rates, increasing with income, instead of a single flat rate. And most, including the horrendous Treasury Department trial balloon, also propose drastic revisions in corporate taxation, nearly all of which are likely to be harmful.

You can get some idea of the likely impact of these proposals by looking at who's for and who's against them. All sorts of liberals and neoliberals, still reflexively antibusiness, have come forward to praise the Treasury proposal (with its 28 percent increase in business taxation). Curiously, they have been joined by a few supply-siders, who have been blinded by its vague association with the original flat-tax ideal. Opposing these plans as likely to reduce investment and capital formation (especially the venture capital needed for starting entrepreneurial new firms) are such economists as Martin Feldstein and Murray Weidenbaum, supply-side writer George Gilder, the American Electronics Association, and numerous other business groups.

Many of these people have reminded us that the "corporate" income tax is a fiction. Consumers end up paying it, via higher product prices. But meanwhile, thanks to the crazy-quilt pattern of exemptions and credits, it "misallocates capital, diverts corporate behavior from more efficient activities, and imposes an excessive tax burden on capital," according to economist Bruce Bartlett of Polyconomics, Inc. Like many economists, Bartlett would scrap both the corporate income tax and the capital gains tax. The result, he predicts in a Heritage Foundation study, would be soaring investment as risk and innovation would no longer be penalized.

But such welcome and productive changes are not likely to emerge from the present political debate, which has cynically linked corporate tax "reform" with a move toward a "flatter" personal income tax. Yet as we've seen, none of the current proposals would achieve the original goal: to free the economy from the huge distortion of both personal and corporate decisionmaking by today's horrendously complex tax system. Perhaps it's time for a more radical approach.

As a preface, let me make clear that as a libertarian, I am opposed in principle to coercive taxation. Ultimately, I believe that the few legitimate functions of government could be paid for on a voluntary basis, by means of "user fees" (for example, the courts) and insurance-like premiums (for example, defense). But this sort of minimal government is far in the future. In the near term, it's legitimate to work at devising a tax system that is the least destructive of both economic decisionmaking *and* personal liberty.

One way to do that would be to replace both the personal and corporate income taxes with a flat-rate national sales tax. Depending on how it's defined, such a tax could produce the same (static) revenue as today's income taxes (about $400 billion) at a rate of between 15 and 33 percent.

The major objection to such a shift would be that a sales tax is "regressive," rather than "progressive." But the principle of a flat rate applying to everybody has been largely accepted in the debate on a flat-rate income tax. And since we know that *consumers* are the ultimate payers of the corporate income tax, having them pay directly rather than indirectly is not really much of a change.

But consider what a difference such a shift would make in economic behavior. There would finally be a level playing field for business decisions. Firms could write off capital investments in the year of purchase or depreciate them for as long as they liked—the decision would be made for *economic*, not tax, reasons. A national sales tax would be a pure consumption tax; there would be tremendous incentives for savings and investment (as in Japan). The tax-shelter industry would disappear—no more cattle-feeding deals, no more yachts or corporate jets bought because of write-offs, etc. With capital gains taxed at zero, and increases in personal income taxed at a zero marginal rate, venture capital and entrepreneurship would reach unprecedented levels.

From a political standpoint, a shift from income taxes to a national sales tax would provide a powerful restraining force against future tax increases. Why? Because every single voter would see and feel the federal sales tax every single day of the year. Instead of being hidden—by withholding or by being disguised as a corporate tax—a sales tax is highly visible and painful. And that is precisely how a tax should be, if our interest is to keep the politicians from

sneaking through periodic increases.

Finally, perhaps most important of all, the abolition of income taxes in favor of a sales tax would mean the abolition of the Internal Revenue Service and all of its threats to personal liberty and privacy. And there would be further economic benefits, as all the IRS employees and the legion of private tax preparers would have to find productive work.

Thus, a vastly more productive, and freer, society is within our reach. But it will not come about by tinkering with the present tax code in the name of a "flatter" tax.

Paul Gordon

Harboring Illegals

You wouldn't expect that Presbyterian congregants in a small Midwestern town would publicly defy the federal government. But that's exactly what's happening. The Central Presbyterian Church of Massillon, Ohio, along with about 200 other churches across the country, has carefully decided to engage in civil disobedience. These people—many of whom would hesitate to jaywalk—run the risk of $2,000 fines and 10 years imprisonment.

Their crime is giving sanctuary to refugees from the killing in Guatemala and El Salvador. The congregants note that churches have historically served as sanctuaries from natural and political disasters. The Reagan administration, however, will have none of it. It says that the sanctuary movement is harboring, and conspiring to harbor, illegal aliens. It has prosecuted 20 individuals in the movement and deported thousands of Central Americans to their homelands.

Do the beleaguered Central Americans themselves have any legal recourse? Ostensibly they do. Federal law says that any alien who demonstrates "well-founded fear of persecution based on race, religion, nationality, membership in a particular group, or political opinion" can get refugee status and remain here.

Unfortunately, though, the Reagan administration has a peculiar definition of "well-founded fear of persecution" that excludes most Salvadorans and Guatemalans. In the first half of fiscal 1984, it granted only *3.3 percent* of the applications by Salvadorans for refugee status—and they're from a nation where, as Amnesty International put it, the government is involved in "a systematic and widespread program of torture, mutilation, 'disappearance,' and the individual and mass extrajudicial execution of men, women and children."

It's impossible to learn the fate of most deportees, but the ACLU Political Asylum Project has evidence of many being murdered, tortured, and imprisoned There are undoubtedly others. Still, according to the *Wall Street Journal*, the administration continues to deport about 500 more every month.

How does the administration rationalize its policy? While it admits that there is "ongoing civil strife" in El Salvador, it contends that most of the Central Americans aren't really refugees from persecution. They're just trying to escape poverty, and that's not sufficient grounds to grant them refugee status. "El Salvador has a long history of cases of immigration to the U.S. for economic reasons," State Department human-rights chief Elliott Abrams told the *Journal*.

Abrams and his colleagues' argument is as hypocritical as it is inhumane. After all, an administration supposedly devoted to economic freedom is denying entry to people who want to find a job, work hard, and better themselves, which most immigrants do, given the chance. Perhaps Abrams and his friends need to be reminded of the immense contribution immigrants have made to the American economy—including those who immigrated "for economic reasons." One wonders if Abrams's own ancestors would have made it past Ellis Island if the policies he defends had been in force.

In the case of Central America, distinguishing between refugees from persecution and people who want to escape poverty is especially senseless, since political and economic oppression there are intertwined. Look at Guatemala. Aryeh Neier of Americas Watch, a respected human-rights group, has pointed out that the army's strategy is to terrorize Indian peasants in areas where guerrillas are thought to enjoy support, destroy the peasants' crops and livestock, drive them into the hills until they're near starvation, then distribute food to those who submit to "reeducation" and settlement in "model" villages. When peasants are lucky enough to make it to the Rio Grande, are they arriving "for economic reasons" or because of "well-founded fear of persecution"? Our government claims to consider each case thoroughly—often after hearings lasting 10-15 minutes—then it deports the vast majority.

It is against this official inhumanity and half-truth that the Massillon Presbyterians commit civil disobedience and provide sanctuary to four Salvadorans. Part of the historical right of sanctuary that the church invokes is the tradition that the power of civil authority stops at the cathedral gates. In this respect, the movement's vision is too limited. It is indecent for the government to prosecute *any* individuals who disobey evil laws, whether their disobedience takes place in churches, grocery stores, or Elks Club halls. But that is beside the larger point, which is that the courageous people of the sanctuary movement are acting morally and defying reprehensible government policy. We wish them well.

notes

Even magazines sometimes need facelifts, and REASON is no exception. A few months ago, Publisher Robert Poole, Editor-in-Chief Marty Zupan, and I gathered together our ideas about the image and feel we wanted REASON to project. We all agreed that the magazine needed a contemporary, uncluttered, and unified look. After many roughs, revisions, and refinements, plus the advice and guidance of designer Pierre Rademaker, we are finally able to introduce with this issue the "new" REASON. We hope you find it refreshing—and easier to read.

—L.M.

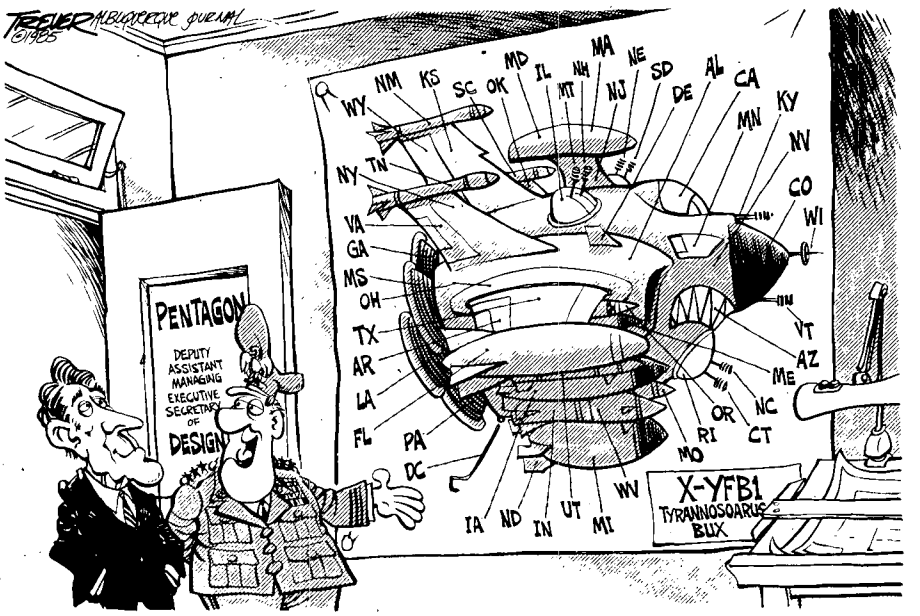
brickbats

Mystery solved! Ever wonder why Soviet department stores are empty while those in capitalist countries are full of merchandise? Well, a Latvian educator has answered the riddle in a Soviet publication. "People in capitalist countries do not earn enough money to buy such products and therefore they remain on the shelves. The income of the Soviet people has been rising steadily so that now they can buy everything they desire. It is the buying power of the Soviet people that keeps store shelves empty." Take that, Agatha Christie.

Everyone knows that the cost of living is up because of government. But so is the cost of dying. Coffin-maker Roger King of Wendell, Idaho, wants to sell his caskets directly to the public. But a state law that gives that exclusive right to morticians threatens to nail the lid on his plan. An Idaho trade association for licensed morticians has sicked the state on King, who offers lower prices than mortuaries. King says his plan would save taxpayers money, because Idaho counties are required to pay for burial of indigents. Under present law, the counties have to buy caskets from funeral directors, who naturally charge a lot more. Is this what the welfarists mean by cradle-to-grave "protection"?

Cab drivers in Las Vegas are acting like the posterior ends of their competition. The hackies galloped into a courthouse to put the reins on "unfair competition" from the horse-drawn carriages that carry high rollers on the famous "strip." A judge finally lifted a restraining order that prevented the carriages from operating on the tourist thoroughfare. Horse sense finally prevailed.

We all know about chefs who won't eat in their own restaurants, doctors who won't be treated at their own hospitals, and US auto workers who buy Japanese cars. Now consider this. Michigan school teachers are twice as likely to send their own kids to private schools as the rest of the state's population. And in Chicago, 46 percent of city public-school teachers send their own children to private schools, as compared with 22 percent of Chicagoans at large. Maybe they know something.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"AT LAST! A WEAPONS SYSTEM ABSOLUTELY IMPERVIOUS TO ATTACK: IT HAS COMPONENTS MANUFACTURED IN ALL 435 CONGRESSIONAL DISTRICTS!"

What's the bottom line? The New York City Transit Authority bought 325 Japanese-manufactured subway cars with rather tight-fitting bucket seats, measuring 17 inches across. This presents a bit of a problem, since the average New Yorker's backside overflows the bucket. That's what Councilwoman Carol Greitzer learned in her "First All-American Tush Tally," a random sampling of 23 rear ends. "This survey is not an end in itself. It's a means to an end," she said, wondering why the Transit Authority couldn't have performed the same inexpensive survey (she used a $1 tape measure) before spending millions of dollars (lots of them taxpayers') on the bottom-busting cars. Looks like the Transit Authority's the butt of yet another joke.

Real men don't need umbrellas. That's been the philosophy of the US Army up to now. A GI in uniform is never to carry an umbrella, rain or shine. Drier heads are trying to prevail, and the Army Clothing and Equipment Board is considering purchases of the raingear. But one officer close to the board is skeptical. "A lot of the senior officers don't like the idea because they think it's too wimpy," he says. The Air Force has allowed the use of umbrellas since 1979. But the other services allow only women to use them because of the "difference in hairstyles," says Army Major Robert Mirelson. Are Americans really being served by folks who don't know enough to come in out of the rain?

Safety in numbers? More than 1,000 men celebrated the King of Thailand's 57th birthday by submitting to free vasectomies. The assembly-line sterilization, sponsored by a population-control clinic, fell short of 1983's unofficial world record of 1,190. A doctor who has performed 5,000 vasectomies hastened to comment that "numbers are not important. It is the quality that matters." A festive time was had by all. Prizes were given to all the men, while a rock band sang the praises of contraception. The clinic distributed among the newly vasectomized men T-shirts bearing the proud slogan "I am safe now."

—*Mark Edward Crane*

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3 Since the introduction of the $100 commemorative gold coin in 1976 and the Maple Leaf in 1979, Canada has moved into the forefront of the world's gold coin producers. More and more collectors, especially in the U.S., are seeking the coins of our neighbor to the north.

4 The Canada $20 was issued in 1967, at which time it was illegal for Americans to acquire current gold coins. Consequently, very few Americans acquired specimens at the time of issue. Most of the mintage was sold to Canadian collectors, but a very substantial portion was sold to European collectors. As more and more Americans seek the Canada $20, its price is likely to rise.

5 The Canada $20 is Canada's first modern gold coin issue, and is required by collectors seeking a complete set of Canada's modern gold coins.

6 The Canada $20 is Commemorative Coin of genuine importance, issued to help celebrate Canada's 100th Birthday.

7 The Canada $20 is unique among Canada's gold coins: the $5, $10, $50 and $100 gold coins have each been issued for at least 6 different years, and all are still being produced. The $20 was issued only in 1967. It is a one year type coin!

8 The Canada $20 is a Proof coin: a specimen of the pinnacle of the mintmaster's art.

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trends

Blazing Trails to Indian Prosperity

Anyone who believes in the benevolent potential of government should take a look at the hapless 755,000 American Indians whose lives are entangled with the Bureau of Indian Affairs (BIA) and various tribal governments. These people live under a cradle-to-grave welfare state that would put Sweden to shame. "They're the most overregulated group in society," Occidental Petroleum executive Bob Robertson explained to REASON—and no other group in the United States has such a low income, high suicide rate, and inadequate education. But recently, there have been two small rays of hope: both a presidential commission report and a nationally broadcast TV documentary have dissected Indians' economic problems and suggested a way out.

The President's Commission on Indian Reservation Economies was co-chaired by Occidental's Robertson, and its package of recommendations included some that would reduce Washington's role in reservation economies. In the light of the federal government's abysmal record, it would have made sense for the commission to suggest an out-and-out end to Washington's malevolent benevolence. Unfortunately, they didn't go that far; indeed, they called for an infusion of more federal loans and grants for economic development of reservations and a streamlining of programs already in place. Even so, many of their conclusions point in a promising direction and deserve consideration.

For example, the commission pointed out that tribal governments, because they're trying to be both business people and politicians, are often an enormous obstacle to economic development. "The failure to separate governmental from corporate functions results in a confusion of goals," the report noted. "Using tribal enterprises as instruments of political patronage contributes to their failure. Siphoning away investment capital from tribal businesses weakens the capacity of business to expand." Thus, the commission spoke favorably of privatizing ownership and management of tribal enterprises. Where the tribes continue to own businesses, the report suggested that corporate functions be freed from political interference by the tribal governments.

The commission took note of another big problem. Businesses interested in building facilities on reservations are often worried about "dual taxation" by both the tribal government and the relevant state government. The problem could be alleviated, according to the report, with new legislation permitting reservation residents to vote on whether to grant tribal governments exclusive taxing authority on reservations.

The commission discussed other reforms, including resource management. Indians have legal title to a wealth of natural resources, mainly in the West, but the Interior Department manages the resources, ostensibly for the Indians' benefit. The commission didn't explicitly say so, but government has none of the incentive for prudent and rational management that a private enterprise does in a market economy—and in this case, it is the Indians' property that suffers as a result. The commission did recommend, however, that Interior's role be limited to protecting the Indians' legal ownership of the land, with decisions on managing and use of resources shifted to the Indians' hands.

Is the commission's emphasis on the positive potential of Indian entrepreneurship justified? A recent documentary called *The New Capitalists: Economics in Indian Country* suggests that it is. Broadcast last October on PBS and narrated by Eric Sevareid, *The New Capitalists* described Indians' problems in vivid detail—but it also told of some of their little-known economic successes. For example, the Choctaw Indians in Mississippi run an industrial park with some 500 employees. A salmon cannery in Alaska is operated by 300 Metlakatla Indians. And the Indian-run Fort Apache Timber Company in Arizona turns out millions of board-feet of lumber and generates millions of dollars in economic activity.

In the documentary, a leader of the Ak Chin tribe recounted that his tribe's irrigation proposal had been turned down by the BIA as impractical. He said, "We told BIA it could be done. And we did it without their assistance." Sevareid concluded, "In the end it will be the Indians themselves who will determine their economic future." It is a lesson also alluded to in the report of the presidential commission, and Washington would do well to take it to heart.

Heresy in the Temple of Organized Medicine

In the temple of pork-barrel gluttons, the medical establishment has a special shrine. It funnels millions of dollars in campaign contributions to politicians (some $4.2 million distributed by political-action committees for the 1982 elections, and that doesn't include vast amounts doled out by individual doctors). It gets its money's worth—a system of professional licensing that means the supply of medical services is limited, the cost of health care is inflated, and the medical industry is shrouded in secrecy that would make Greta Garbo envious. On the whole, licensure has been an immensely effective means for redistributing income—from patients to doctors. But now, there's a group posing a challenge to that system. It's called the People's Medical Society (PMS).

The PMS is a consumerist organization, and it understands that free-market principles can be some of the most effective weapons in the medical consumer's arsenal. Accordingly, one of the group's biggest goals is deregulation of the medical

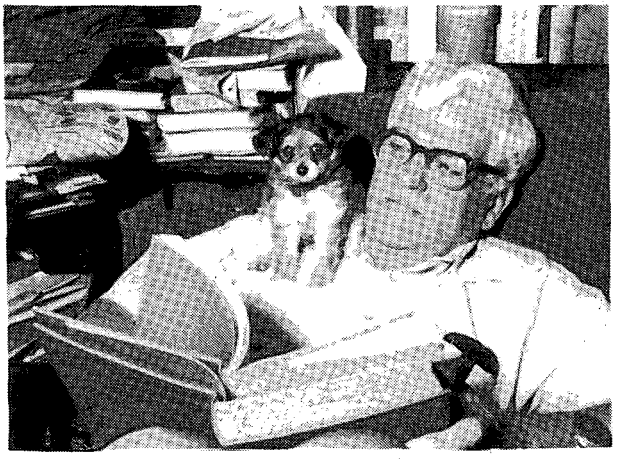
A Visit with Percy

Percy Greaves, economist, author, lecturer, Pearl Harbor expert and Free Market Book publisher, died on August 13, 1984, just short of his 78th birthday. When Robert L. Bradley, Jr., a young "Austrian" economist, heard the news, he wrote a short tribute to Percy, whom he had met several years before.

As a college student, Rob had attended a Foundation for Economic Education seminar in Irvington, NY. He had already read quite a bit on free market theory and so, as he put it:

> I was not wholly unprepared for the exhilarating intellectual experience. . . . In the week-long program, I received my first glimpse of the big picture of economics. . . . These moments of first discovery, alas, can only be experienced once. But the highlight of that week was a special invitation, reserved for promising students of the seminar, to visit in the home of Percy L. Greaves, Jr. to discuss economics.
>
> I do not remember distinctly what questions I asked, only that I learned a great deal of economics in one evening. I remember also my genuine excitement at the opportunity to pick the mind of a learned disciple of Ludwig von Mises.
>
> Percy emphasized the orderly nature of free markets and the detrimental unintended consequences of government intervention. He discussed the role of monetary manipulation in the business cycle and the Great Depression, a "specialty of the house." He stressed the importance of precise terminology to distinguish purposeful human action, the subject of economics, from mechanistic "man" of neoclassical economics. (You would no more use natural science metaphors such as "equilibrium" or "model" in Percy's presence than a profanity before a minister.)
>
> Now that Percy is gone, students will no longer be able to discuss economics intimately with him. They can no longer enjoy the opportunity of having economics "come alive," as it did for me when Percy presented Misesian insights to explain complex social phenomena. However, they can still read his *Understanding the Dollar Crisis*, and profit from his glossary for Mises' HUMAN ACTION, *Mises Made Easier*, as well as his various short pieces. It is up to the younger Austrian economists, quite a few of whom are alumni of "visits with Percy," to carry on the Misesian tradition.

Percy was a long-time, serious and devoted student of the late Ludwig von Mises. He attended Mises' New York University graduate seminar regularly for 19 years. His *Understanding the Dollar Crisis* simplifies the teachings of Mises and, according to Henry Hazlitt, "admirably meets [the] need [for] a book of intermediate length to introduce readers to a full appreciation of the Misesian principles and insight." His glossary, *Mises Made Easier*, defines all the less common words and terms and gives translations of all foreign phrases in Mises' HUMAN ACTION. Although persons interested in free market ideas can no longer enjoy personal "visits with Percy," they can still visit through his writings and his audio-taped lectures. See the order form below.



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profession. It even distributes "Deregulate Doctors" buttons, and the organization has published a study by Lori B. Andrews, called *Deregulating Doctoring: Do Medical Licensing Laws Meet Today's Health Care Needs?* The answer to that question, according to Andrews, is no, because licensing "increases the cost of health care services and tends to freeze the standards."

Andrews considers several paths to reform. How about trying to change doctors' perspectives by adding new requirements in medical schools? She considers that to be inadequate and costly. Expanding state licensure to cover a larger number and variety of health-care practitioners "would cause an enormous state expense, initiating an incredible bureaucracy." Andrews does

global trends

Swiss Who Don't Miss Public Schools

NOVAGGIO, SWITZERLAND—A growing number of people in Switzerland are becoming concerned about the large bureaucracy and the political logrolling in their public-school system. Some of them are now trying to avoid the system altogether, and they're succeeding.

Education here is controlled by each individual canton (state). Thus, when a family moves across canton lines, its children's new school may have not only a different language of instruction but also a different curriculum, different lengths of cycles for primary and secondary education, and even different starting times for the academic year (some cantons start the school year in the fall, others in spring). Moreover, cantonal authorities exert political pressures by defining the curriculum and allocating funds, just as the village and town councils do when they appoint teachers.

Declining school enrollments have only exacerbated the problem. In all but the major urban centers, teachers are being laid off, purse strings tightened, and entire schools closed down in a process often involving local referenda and messy legal appeals by teachers. All in all, this has often resulted in an adversary relationship between parents on the one hand and educational authorities, schools, and teachers on the other.

So it isn't surprising that some parents have decided to take a much more active role in their children's education. Not content with sending them off to private schools, which are subject to regulation by cantonal boards of education, a handful of parents have started to teach their own children or have them taught privately.

One such experiment was started in 1982 by Dr. L. A. Crespo and a small group of like-minded parents. It works simply enough: several families pool together to hire the services of private teachers. The tuition fee is set by dividing the cost of teachers' salaries and a few extra items by the number of children attending. Every three months, classes are rotated among the homes of those families having enough space for a classroom.

The advantages of Crespo's system are, in purely practical terms, that almost all of the tuition paid by the families goes toward instruction and nothing for rent or building maintenance. Beyond that—and more important educationally—parents who have taken the education of their children into their own hands will be able to nurture and foster the values that they themselves hold high.

At one point, Crespo and his friends were harassed by their canton's department of public instruction. The department warned them to discontinue their experiment under pain of legal sanctions. The courageous parents defied the threat and met with the head of the department. Armed with a legal brief, they argued that their system is actually exempt from public law. The department has not been heard from since.

The school continues to operate to the satisfaction of students, teachers, and parents. End-of-year examinations have shown achievement considerably beyond that expected at state schools. And the children have time to cultivate other interests such as learning to play at least one musical instrument, participating in competitive sports, and studying ballet.

Crespo is clearly pleased that his system is now educating a total of 17 children, all of them near his home in the Rhone Valley. He told REASON, "In looking back to the first days of our experience, I can say that the only difficulty in putting theory into practice was psychological. The biggest obstacle lies in one's head."

He continued, "You have to overcome the feeling that if you go off the beaten path, the sky is going to fall on your head. Once this is overcome, the rest is easy, and most of the practical problems are easily solved."

—Theo. E. Brenner

Rejecting the Collectivist Temptation

EUROPE—For decades it seemed that no one in Europe took classical liberal ideas of individualism and limited government very seriously. Both on the left and on the right, a powerful state that owned, or at least directed, the economy was assumed to be desirable and inevitable. But recently, political debate in Western Europe has been transformed.

The change was discussed in a *Wall Street Journal* article last December by noted author Jean-François Revel and Branko Lazitch. "Today the reluctance to trust the state and the greater faith in the creativity of private entrepreneurship is shared by both the right and the left—except for the Communists," they pointed out. "Capitalism as such is accepted, under the label 'liberalism.'"

Liberalism's new respectability extends even to intellectual circles where Marxism once reigned. "Ten years ago most scholars, students, political writers and journalists regularly quoted Marx, Mao, Marcuse, Galbraith and Sartre. Their most conservative author was Keynes," Revel and Lazitch wrote. "Today, those names have disappeared, and the fashionable ones are Hayek,

(Continued on p. 14)

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suggest that it might be minimally useful for states to limit the definition of the practice of medicine—that is, the activities the state heavily regulates—so that it would not prohibit people from advising, recommending, and suggesting treatments and remedies (which activities, she urges, ought to be protected by the First Amendment in any event).

The best solution, according to Andrews, would be abolishing the current system of mandatory state licensing altogether. Borrowing a page from free-market thinking, Andrews writes, "This presumably would allow consumers to gravitate toward those health care providers who would offer the most appropriate therapies for their medical needs." She believes that the government should have a far more modest role in health care, limited to (1) voluntary certification for health-care providers who want the credentials while other providers could still practice freely, and (2) requiring certain kinds of disclosure to consumers from all health-care practitioners.

The PMS does not confine its efforts to such theorizing, as valuable as it is. It is also making available to its members and other consumers a People's Medical Library with references rang-

global trends

(Continued from p. 12)

Schumpeter, von Mises, Friedman and Debreu."

The transformation extends to politicians. Prime Minister Mario Soares of Portugal is interested in promoting private enterprise and private banking. France's new prime minister, Laurent Fabius, wants a lower income tax and fewer corporate taxes, and he speaks favorably of profitability. Italian prime minister Bettino Craxi eventually won a yearlong battle to abolish the automatic indexing of wages to prices that had helped fuel his nation's inflation for decades. Yet Soares, Fabius, and Craxi are all ardent socialists.

There is other evidence that the advent of liberalism isn't just talk. The *International Herald Tribune* recently surveyed three types of liberal reforms already accomplished or in the works—denationalization, deregulation, and contracting out of government services.

As for denationalization, Britain's sale of the government-owned telephone company British Telecom is the latest in a series of sales. Italy is selling off its interest in an industrial holding group and the national oil company. West Germany is reducing its share in the energy consortium Veba, the nation's largest company. And all three of France's chief opposition leaders—ex-president Valéry Giscard d'Estaing and ex-prime ministers Raymond Barre and Jacques Chirac—have said that they would denationalize not only the companies nationalized by the Mitterrand government in 1982 but also some that were nationalized decades ago by their mentor, Charles de Gaulle.

Deregulation is making its mark as well. For example, financial markets are being deregulated in Britain, Germany, and Switzerland, and airline regulation is falling by the wayside in several markets. (Both are acknowledged as responses to competitive pressures caused by US deregulation.)

Finally, contracting out is increasingly attractive to local governments who must trim their budgets. "The competitive edge of private enterprise over state-run enterprises is rarely contested," the *Tribune* noted. In Britain, municipal sanitation services in Birmingham are contracted out, and Prime Minister Margaret Thatcher is pushing for privatization of nonmedical services in the National Health Service. In Germany, several Bavarian towns contract out (for example, Straubing realizes a 50 percent savings having private contractors manage its public housing).

In their *Wall Street Journal* article, Revel and Lazitch warned that old statist habits in Europe won't evaporate suddenly. "The only sure thing we can say is that from now on the mainstream has begun to run in the opposite direction," they concluded. "For the first time an overwhelming majority of Europeans want to keep an open society and reject the collectivist temptation."

Making the Price Right

FRANCE—Who do French people think is their nation's top inflation fighter? In a recent poll, 40 percent of the respondents didn't say François Mitterrand, and they didn't say any of the conservative politicians angling to run against him in the next presidential elections. Instead, their answer was Edouard Leclerc, a man virtually unknown elsewhere but whom many French citizens consider to be the consumer's best friend.

Leclerc is the head of Centres Leclerc, a vast retailing empire that includes some 500 supermarkets and discount stores with annual sales of $5 billion—and profits of $140 million. The former Jesuit seminarian owes his enormous success to his large-scale discounting. According to a recent report in *Business Week*, Leclerc gets cost concessions from suppliers at prices two to seven percent less than his competitors, and he passes savings on to consumers. When suppliers are resistant, Leclerc knows what to do. For example, Leclerc took Kronenbourg beer—produced by the largest brewery in France—off of the shelves of his stores for three months until the brewery agreed to let Leclerc sell Kronenbourg at a discount.

It's interesting, and a bit ironic, that Leclerc has garnered the cautious support of the socialist Mitterrand government. Faced with high unemployment and a moribund economy, Mitterrand's technocrats are relaxing some of France's anticompetitive laws. A government official even told *Business Week*, "Basically we agree with many of the things that Leclerc is trying to do in the way of modernization [of the economy]."

Before Leclerc, discounting was virtually unheard of in France. Indeed, ever since the medieval trade guilds, there have been French laws banning discounting, but Leclerc isn't daunted. After fighting the age-old laws in the French courts, he has asked the European Court of Justice in Luxembourg to overturn a number of the French restrictions on discounting. "If Leclerc wins, there will have to be a major transformation in French distribution," Michel Drancourt of the Institut de l'Entreprise, a free-market think tank, told *Business Week*. It wouldn't come a moment too soon.

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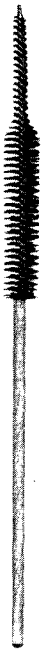

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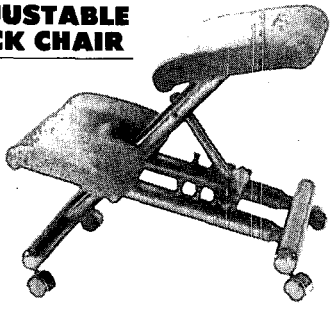

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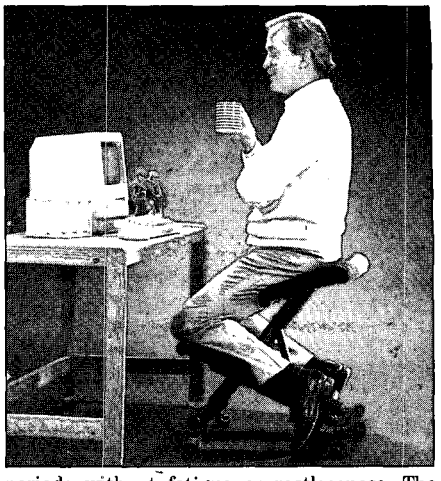

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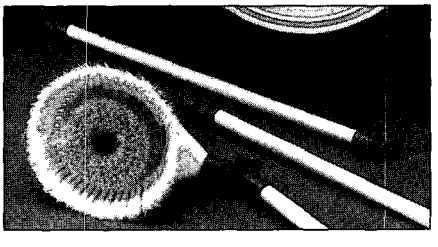
Here's one of the hottest houseware products of the past decade. With good reason — the ultra-sonic humidifier does an important job extraordinarily well. Using extremely high-frequency sound waves, it breaks water molecules into a mist so fine that one tabletop unit humidifies an entire 1500 sq. ft. house or apartment. Operation is virtually noiseless — and completely safe (the vapor stream is cold, even though it *looks* like hot steam). The Samsung ultra-sonic humidifier unit shown here weighs 8½ lbs., measures 16" x 8½" x 12⅔" with removable 1.3 gal. smoked acrylic reservoir fillable at any sink. Mist volume control allows selection of mist intensity and humidistat automatically turns unit on and off to maintain preselected humidity levels. The misting unit shuts off when empty, emitting nozzle swivels 360°. **$109.00** ($10.95) #A1313. To keep your humidifier operating at peak levels we recommend using Humidifier Water Treatment to control mineral release into the air of your home and Humidifier Cleaner to remove any mineral deposits from your humidifier's reservoir. The set of four (2 each of the 16 oz. bottles) costs **$12.00** ($2.95) #A1296.

HIGHSPEED SCRUBBER

The Swirlon Rotary Scrubber turns an ordinary garden hose into an automatic cleaning machine. Water pressure spins the 5" inner brush for highspeed active cleaning while the 8" stationary outer brush contains the spray and sweeps away the loosened dirt. The Swirlon brush system gives much better cleaning results than the ordinary jet stream hose nozzle method. Swirlon also keeps mess to a minimum as the water stream and soap is concentrated under the brushes — no more backsplash onto the person doing the cleaning. Brushhead adjusts to any of six angles for best cleaning, contains the soap reservoir for automatic sudsing and soft split-end plastic bristles for sturdy gentleness. Water flow can be shut off with a thumb-operated valve so there's no constant running back and forth to the faucet. Two 24" extensions provide a total reach of 70" — ideal for washing soffits, siding and second story windows. Makes short work of cleaning garbage cans, lawn furniture, patios and porches. Car washing has never been so easy and expertly accomplished. The Swirlon Rotary Scrubber costs **$32.00** ($3.95) #A1135.



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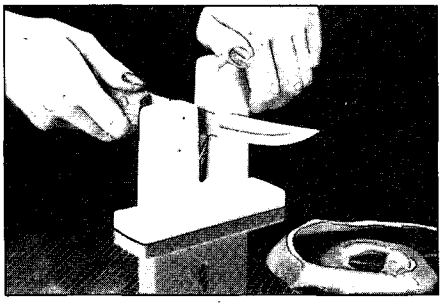
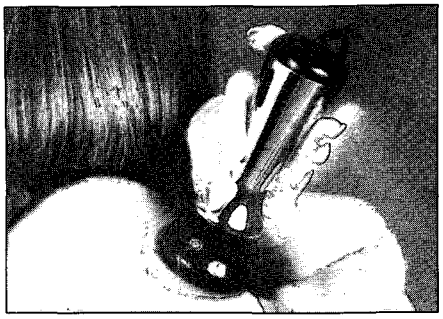
SHARPEST OF THE SHARPENERS

The classic knife sharpening tool is the butcher's steel, but most people find it intimidating. The Chantry Knife Sharpener duplicates butcher steel action but makes it so simple anyone can sharpen and realign a blade edge perfectly in moments. As the knife edge is drawn between a pair of hard (Rockwell 64-65) Sheffield Steel rods, spring-loaded at just the proper angle, both sides of the blade are aligned. Works on stainless or carbon steel knives, straight or serrated edges. The Chantry is made of heavily enameled steel, can be countertop mounted, costs **$32.00** ($4.95) #A1225. It is included in the permanent design collection of the Museum of Modern Art.



DEEP HEAT RELIEF



Heating pads and hot water bottles mainly warm the surface of the skin — their heat does not penetrate deep into muscles and joints. Infrared heat goes deep beneath the skin to reach the actual site of inflammation and discomfort. It has been used for years by doctors and therapists, in place of medication, to gain natural relief of pain. Now there is a home unit, the Infralux, that allows you to apply infrared heat *yourself, as often as you like.* Fast (5-10 minutes), effective relief of pain from sinus headache, arthritis, bursitis, backache, neuralgia, sprains, muscular aches and pains. Perfectly safe to use. Hi/low settings, 6″ long, with carrying case for **$45.00** ($3.95) #A1175.

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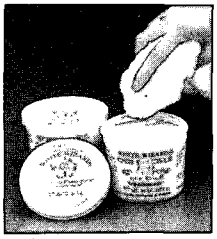

White wizard is the first thing we reach for when confronted with a grease, oil, blood, ink, berry, fruit juice, lipstick, coffee, tea, smoke or pet stain. We have found White Wizard exceedingly mild-mannered — odorless, neutral Ph, non-abrasive, biodegradable, compounded of 9 non-toxic quality chemicals. Two 10-oz. tubs of White Wizard cost **$12.00** ($2.95) #A1008.

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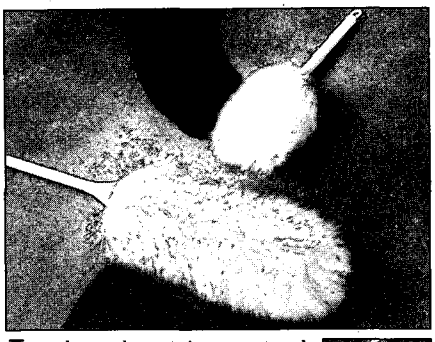
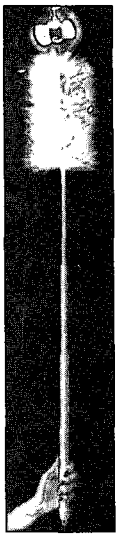


Lambswool contains a natural static charge that makes dust literally leap off surfaces. This magnetic attraction is just the thing for dusting bric-a-brac, china, crystal and pictures. Our dusters are imported from New Zealand where climate conditions grow the fluffiest, highest quality lambswool in the world! Our telescoping duster (right) extends to more than four feet — lets you reach high corners, top shelves, overhead lights. It collapses to 28″ and costs **$11.00** ($2.95) #A1317. We offer a set of three lambswool dusters: the telescoping duster, our popular 27″ duster and a mini duster for extra fragile objects for **$17.00** ($2.95) #A1316.



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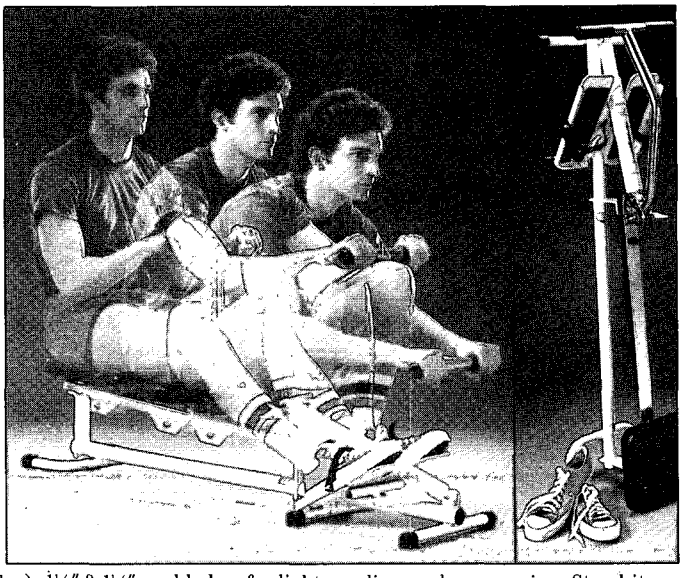

The Vitamaster rower is a precision fitness machine designed to give maximum results at home. Rowing is one of the few activities capable of toning, firming and conditioning your entire body while improving aerobic (heart/lung) fitness. Unlike bicycling or running, rowing works all major and most minor muscle groups in your back, stomach, arms, shoulders and legs. The frame is made of durable yet lightweight (just 34 lbs.) 1½″ & 1¼″ welded steel. The padded vinyl seat tracks effortlessly on sturdy nylon wheels. A single hydraulic tension device is center mounted and adjustable for light, medium or heavy rowing. Stand it on end behind a door or in a closet when not in use. It comes to you assembled for only **$119.00** ($10.95) #A995.

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ing from the *AMA Family Medical Guide* to Rodale Press encyclopedias of natural healing and home remedies. The organization is also distributing Physician Evaluation Forms to its members, who then report back on how they rate the quality of care they receive from their doctors, how long they have to sit in doctors' waiting rooms, whether they believe the doctors overcharge, and whether they would recommend their doctors to other PMS members. The PMS will collate this information in an annual report.

Doctors, for the most part, are scandalized. In *Private Practice*, a generally conservative magazine for doctors, a Pennsylvania psychiatrist warned his colleagues that PMS "is rooted in deep antagonism to the medical profession and to medical science itself." He seemed outraged that the PMS distributes a fact sheet telling members how they can complain about medical treatment and that it had the audacity to ask doctors to comply voluntarily with a temporary freeze on fees originally requested by the American Medical Association.

It's too early to know how successful the David-like PMS can be against the Goliath-like medical establishment. But it does appear that the fledgling organization's slingshots are in good working order and often on target.

Flowing Toward The Marketplace

The San Diego Water Authority, because it is using common sense, is making waves. The authority has come to recognize just how inadequate the current system of allocating water in California is, and the water officials have concluded that an open market in water would be a far more sensible alternative. With two centuries of literature in free-market economics to back it up, this might seem like a natural conclusion. But in fact, it's a very radical view, not at all what one hears from the run-of-the-mill water authority in California.

That's because an open market in water simply doesn't exist in California, nor in much of the rest of the West. Instead, there is, as the *Los Angeles Times* described it, an "intricate network of laws that has governed the allocation of water in the Southwest for generations." Put less gently, it is a mishmash of local, state, regional, and national laws that makes Rube Goldberg contraptions look streamlined and efficient. Some water users get far more water than they need, others far less. The system's rigidities are painfully apparent to a booming area like San Diego County that needs the flexibility to purchase water where it can.

So San Diego County's water officials last year tried to bypass the system. They bought an option from a private Colorado firm called Galloway Group Ltd. to buy up to 500,000 acre-feet of water annually for 40 years. The water would come from the Yampa River, a tributary of the Colorado River where Galloway owns water rights, and it is water that, according to the *Times*, currently runs down the river unused. Galloway was happy, since it anticipated making a profit, and the San Diegans were relieved that they might have a 40-year water supply.

But the deal was scotched when the Upper Colorado River Basin Commission voted unanimously that Galloway couldn't sell its water to San Diego. An indignant Felix Sparks, who represents Colorado on the commission, raged, "Any thought that we will sell our birthright downstream simply for money is totally abhorrent to the people all along the Colorado." Of course, the Yampa River water at issue isn't really the birthright of Sparks, the commission, or hardly any of the other fine people all along the Colorado. It's the property of Galloway—but Sparks and his fellow moralists on the Basin Commission were not concerned with such piddling details. They have their own rickety system for divvying out Colorado River water called "the Law of the River," and they will brook no tampering with it. If San Diegans and other consumers dehydrate, so be it.

But the San Diego County officials were not discouraged by Sparks and company. Even though Galloway cannot deliver on its option with the San Diegans—at least not for the time being—they renewed the option when it expired.

It's interesting that in the wake of the San Diegans' effort, the idea of buying and selling water is seeping around California. More and more, potential sellers as well as potential buyers (like San Diego) recognize the advantages of a water market.

For example, a consortium of four counties in northern California recently asked the San Diegans if they'd be interested in buying extra water from a proposed new dam and reservoir on the Consumnes River. The northern counties knew that a deal with San Diego would help them get financing for the dam and reservoir. And the Imperial Irrigation District of California wants to get into the act. Every year, it wastes as much as 438,000 acre-feet of water, partly because of spillage and seepage from unlined irrigation canals. Last December, though, the district approved a deal with Parsons Corporation, a private construction firm in Pasadena, in which Parsons would do all the construction work on new water-conservation facilities. A good amount of water would be saved as a result, and Parsons would get an annual cut of the district's sales of that water.

Even the *Los Angeles Times*, which is ordinarily as fond of fundamental change as it is of malaria epidemics, seems favorably disposed toward a water market. "No one was very happy with the way San Diego jolted the water establishment through its free-lance dealing with Galloway," it editorialized—but it admitted that "San Diego's approach recognized the reality of the limits of new water development in the West and the momentum behind the concept of marketing water as a commodity like wheat or oil."

Maybe the edifice of governmental water regulation is slowly eroding after all. If so, the indefatigable San Diego County Water Authority deserves a lot of the credit.

Health Care Costs Ease With Market Medicine

So politicized is the issue of health-care costs that it's become a popular assumption that the way to contain rising costs is some political action. For instance, we saw not one but five cost-containment propositions on Arizona's ballot last fall (all of which voters rejected). And many observers are pointing to the federal government's 1983 Medicare-payment reform as a model for further policy changes.

In all the hubbub about one

sort of political "solution" or another to the health-care-cost problem, the power of the market to deal with such supposed crises is often ignored. Yet recent developments show that the market itself is indeed responding to the perceived problem of too-expensive health care.

Concern over rising costs has stimulated a surge of innovation in the health-care industry, which has brought down prices. In a recent article on this phenomenon, *Industry Week* magazine noted that many businesses and most major insurance companies are adopting a number of cost-containing reforms in employee health-insurance plans, "such as increased deductibles, mandatory second opinions, and incentives for joining cost-effective health plans such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs)."

Two private health-care companies, National Medical Enterprises and Humana, Inc., have introduced alternatives to traditional health-insurance programs, *Industry Week* further reported. By the end of 1984, NME had signed up more than 60 California firms, covering about 4,000 employees, for its "Health-Pace" program, through which "doctors, hospitals, and other providers contract to accept alternative payment at prenegotiated rates"—thereby reducing physicians' fees by 20 percent and hospital charges by 30 percent. Meanwhile, Humana had signed up more than 600 companies for its plan, Humana Care Plus, which guarantees "that health-care benefit-plan costs will not grow by more than the Consumer Price Index for a period of up to four years," *Industry Week* said.

Moreover, insurers are leaning hard on physicians and hospitals to lower costs. The Blue Cross & Blue Shield Association, for example, reported that its cost-containment programs saved BCBS subscribers $6 billion last year. And BCBS of Northern Ohio has saved $33 million since late 1983 from its hospital admissions screening program.

The growing pressure to lower health-care costs is not without its occasional drama. Physicians and hospitals in Ohio felt some real heat recently, for example, when Blue Cross & Blue Shield of Northeast Ohio solicited bids from area hospitals and announced that it would sign contracts with 25 of the hospitals but wouldn't do business with the rest. (For its customers who go to the 25 contracted hospitals, Blue Cross will fully reimburse charges, but for those who go to the losing 9 hospitals, the insurer will directly reimburse patients only 70 percent of their hospital costs; thus the losing hospitals must collect from the patients and decide whether to accept 70 percent as full payment or make patients fork over the balance.) The *Wall Street Journal* reported that Northeast Ohio Blue Cross chief executive John Burry, Jr., thinks that hospitals that have to compete for his firm's business will be more efficient.

If that sounds as if the entire health-care market is headed for cut-rate pricing, with hospitals forced to banish amenities, don't despair. Many will certainly

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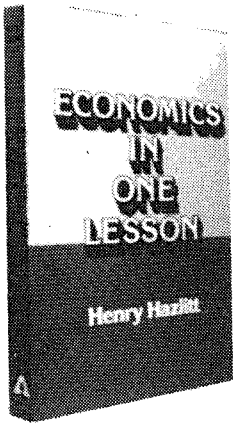

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go that route, but as a recent Associated Press report demonstrated, the market tailors itself to nearly all preferences—and pocketbooks. AP writer Susanne Schafer detailed the luxury service available at Suburban Hospital in Bethesda, Maryland. The 375-bed hospital's VIP wing features 13 private, elegantly appointed rooms, "some with conference rooms or suites attached so that families can stay with the patient or meetings can be held during the patient's stay." A gourmet chef plans the meals, which are served on china.

Innovations in health care are not limited to payment schemes and service arrangements. New approaches to the practice of medicine itself are likely to figure into this trend. As "geriatric evaluation units" (GEUs) catch on, for example, more elderly may avoid much special care, thus putting downward pressure on Medicare and private-insurance costs. According to a recent Veterans Administration study reported in the *New England Journal of Medicine*, only 13 percent of elderly patients who spent time in a GEU—a special hospital unit designed to make them well enough to live on their own—had to enter nursing homes, while 30 percent of elderly patients who didn't spend time in a GEU did have to go to nursing homes. Moreover, the first group's death rate during their first year out of the hospital was half that of the latter group. With widespread availability, GEUs could keep 200,000 people a year out of nursing homes and prevent many deaths, according to the VA.

There *is* a health-care market—and the prescription for it to work best simply is: let it work.

—Robert W. Poole, Jr., Paul Gordon, and Eric Martí

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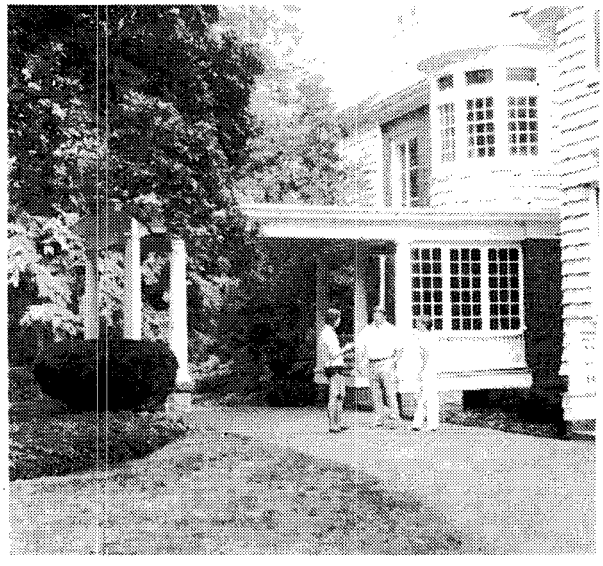

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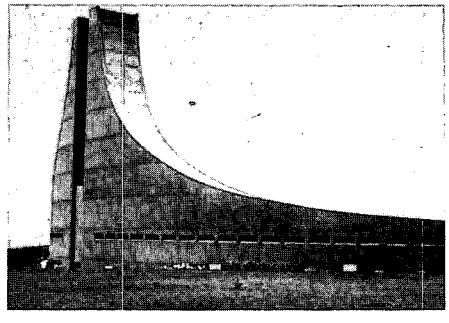


PHOTOGRAPHS BY JOHN BLUNDELL

Above: Ciskei's small-business deregulation has brought the informal sector out of the closet, and the new country already has a national monument at Ntaba KaNdoda.
Facing page: In rural Ciskei, women and girls carrying firewood to their villages is a common sight. In cities such as Mdantsane (far right), previously illegal taxis and *kombis* (minibuses) now abound (center).

There is a small black African country where new-factory openings are so frequent people are losing count of them, where employment in some areas has more than quadrupled in the last four years, where blacks are setting up small businesses in droves and will soon be able freely to own property for the first time in nearly a century, where urban blacks are becoming homeowners under a privatization-of-government-housing plan, and where all manner of "white man's laws" inherited from neighboring South Africa, including the detested race laws, are being swept from the books.

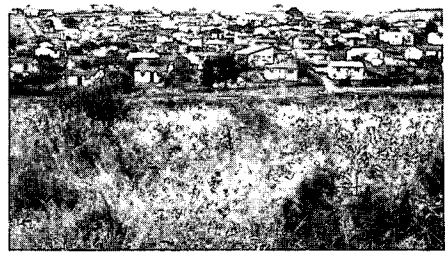
You'd think that this country and its leader would be getting a good press, especially among fellow blacks. But that, I found during a recent investigation, is not the way the story of Ciskei reads.

The Republic of Ciskei (SIS-kie), formerly one of South Africa's "self-governing homelands," gained its independence in 1981 and set itself on a course of sweeping free-market economic reforms. It was news of these reforms that took me to Ciskei, but when I stopped first for a week in Johannes-

Ciskei's Independent Way

By John Blundell

Critics at home say this black "homeland" is a traitor to the anti-apartheid cause. Critics abroad say its hopes for prosperity are a pipedream. An investigative reporter goes to Ciskei to find out what's really happening.



burg and the neighboring black township of Soweto, it soon became apparent that my enthusiasm for what was happening 500 miles away in Ciskei was not widely shared at all.

Dr. Lennox Sebe (SEH-bay), the president of Ciskei and the leader of its reforms, is held in very low esteem by the cream of South Africa's anti-apartheid intellectuals. "Fool," "despot," "traitor," "autocrat," "oppressor," and "stooge" is the best they had to say of him. Charges of detention without trial, harassment, and torture, long associated with white-ruled South Africa, are now laid at Sebe's door.

Ciskei itself, in the view of these critics, is a "fraud" as an independent country. More than that, the homelands constitute "the linchpin" of a South African scheme of "Grand Apartheid" and are "the key to the white man's continuing domination of blacks."

Nor is criticism of Ciskei and its president limited to intellectuals who might be disdainful of the new country's avowed enthusiasm for free enterprise. In Soweto, a sprawling black township of 2 million, followers of the black American free-market economists Thomas Sowell ("How can we get *him* to come here?") and Walter Williams ("He came!") were equally scathing: Ciskei is a classic banana republic; it is led by a very unpopular man put in by South Africa's white government; the homelands were created to divert attention from the main issue—one man, one vote for South Africa.

In Johannesburg, Afrikaners (whites of Dutch descent), who tend staunchly to support the apartheid policy of racial segregation and discrimination, derided the idea of a "kaffir"—their pejorative term for blacks—leading anything. White non-Afrikaners, politically more liberal, were more polite but just as skeptical: Ciskei is Sebe's fiefdom; it exists only thanks to high taxes in South Africa that fund almost all of his spending; most of the latter is questionable, probably highly dubious—even criminal; and he is slapping any opposition into rapidly filling jails.

People knew that the three-year-old Third World Ciskei is breaking the mold, going for free-market capitalism and eschewing socialist planning. They knew it, but for the most part they did not want to talk about it. When I pressed the point I was told very brusquely, "It's irrelevant to the main issue," or "It's too far away to have any impact here even if it's successful," and finally, "It doesn't matter whether it's a success or not—black activists would still condemn it."

Ten years ago, sitting in a downtown coffee house in Johannesburg, a white person would have been surrounded by other whites, served by blacks, and have paid the white cashier. Today a white might well be surrounded by blacks, be served by whites, and then pay a black cashier. Apartheid has changed. Some—but by no means all—of the regulations proscribing or limiting blacks' freedom in South Africa have been removed, relaxed, or ignored. Anti-apartheid activists, however, charge that this is nothing but a thin veneer, a shallow public-relations campaign by the South African government to mollify overseas critics and draw attention away from what these activists call "the final

solution," or "Grand Apartheid."

Grand Apartheid, as these critics detail it, is the policy of carving new "states" out of the main body of South Africa corresponding to the major tribal groups among blacks. Such states become self-governing homelands and are persuaded to apply for "independence." To date, four have become independent—Transkei in 1976, BophuthaTswana in 1977, Venda in 1979, and Ciskei in 1981—although no other nation but South Africa recognizes them. The remaining six—Lebowa, KaNgwane, KwaNdebele, KwaZulu, QwaQwa, Gazankulu—are self-governing within the Republic of South Africa.

However, this is only the start. Every black South African has been assigned the citizenship of one of the homelands on the basis of place of birth, language, or cultural affiliation. And as a self-governing homeland goes independent, all its assigned blacks are stripped of their South African nationality—denationalized. So a black who was born in Soweto and lives in Soweto but speaks Tswana is a citizen of BophuthaTswana and an alien in South Africa, permitted to enter, move about, and work there at the pleasure of South Africa's government.

Eventually, by conceding 13 percent of the total area of South Africa to the homelands and denationalizing some 70 percent of the population that is black, South Africa itself will contain no black nationals, only black aliens, or guest workers. The now-disgraced Connie Mulder summarized the ultimate goal when, as the South African government minister in charge of administering the homelands policy, he said in 1978: "If our policy is taken to its full logical conclusion...there will not be one black man with South African Citizenship.... Every black man...will eventually be accommodated in some independent new state...and there will no longer be a moral obligation...to accommodate these people politically."

With the policy of denationalization of blacks up and running, the Coloureds (people of mixed race) and Indians have finally been allowed a place in a new, tricameral Parliament. Thus, when the day comes that "every black man" is "accommodated in some new independent state," the South African government will be able to say to the world that has been so critical of apartheid: "Look, we have one man, one vote, with full rights for all our nationals. The blacks are only *gastarbeiten*, like the Turks in Germany or the Algerians in France. What's the problem?"

President Lennox Sebe is reviled by the critics of apartheid but is leading Ciskei toward the free market.

> **"It is the only salvation for my people. If I deviate, I will be betraying them for a pot of porridge."**

Such was the case of the critics of Grand Apartheid. Others put a different face on the matter. The problem confronting South Africa, they say, is how to ensure self-determination for each of the country's 12 minorities—nine black tribal groups, plus whites, Coloureds, and Indians. In Sri Lanka today, they note, 2 million Tamils are demanding independence. Violence besets India as the Sikhs seek political autonomy. And so on. The homelands policy should be seen, not as apartheid's "separate development" taken to the extreme, but as an attempt to avoid the tragic outcome of imposing majority rule on a heterogeneous society. But as my week in Johannesburg and Soweto went by, it became evident that the Grand Apartheid view prevailed in reactions to Ciskei and its independent ways.

Makana Tshabalala and Moses Leoka are top officers of the Soweto Chamber of Commerce. Tshabalala has a fast-food chicken take-out chain, while Leoka works for Standard Bank. We met in Tshabalala's home, ate chicken, and later talked in the office-cum-storeroom to one side of his business as his wife brought the books up to date and staff members came in and out for supplies.

Tshabalala had had a tough time opening his business. He'd been attacked from one side by the "white man's red tape," he recounted, and from the other by "black militancy which places the entrepreneur in an isolated position; although once you're open they do patronize your business." In the late '70s the South African government had relaxed highly prohibitive regulations concerning black businesses, leading to a massive increase in their numbers in Soweto. Everywhere I drove in Soweto there was evidence of a burgeoning small-business sector, both formal and informal.

To Tshabalala, the "strongest possible political statement you can make is to make a profit." And to do so in Soweto, he added, most people still have to operate "outside the white man's law."

Why then, I asked, was this devotee of radical free-market theorists such as Thomas Sowell and Walter Williams not shouting from the rooftops for the "Sebenomics" of Ciskei? It was very simple. South Africa's whites "are taking our country away from us," he declared. "The whites are seen as one nation—when they're not. We are seen as separate groups. Imagine what would happen in America if the US government made all Irish-Americans Irish nationals! German-Americans, German nationals! Italian-Americans, Italian nationals, and so on!?"

His theme was repeated in different ways again and again.

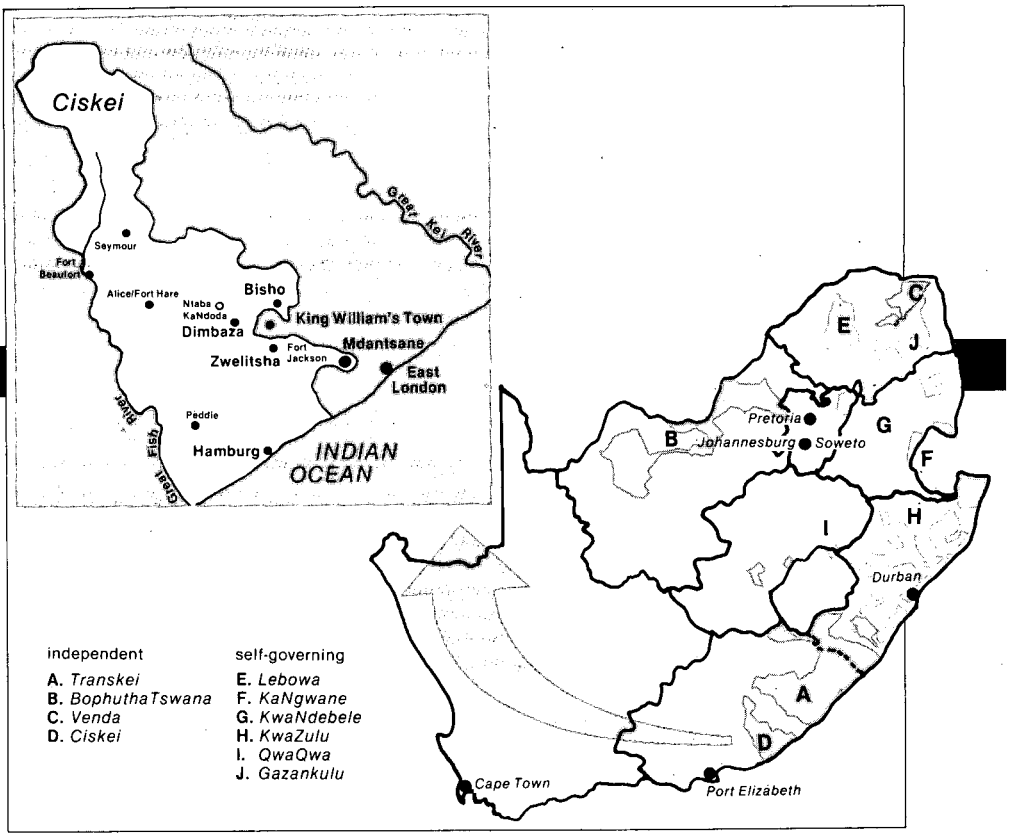
On the patio of her exclusive home in a posh white suburb of Johannesburg, Sheena Duncan, president of the anti-apartheid activist group Black Sash, scored the homelands policy as "a very cheap way of *not* looking after people." Her evidence: "Over 50 percent of our population is officially resident in the homelands, but under 10 percent of our government expenditures are directed to them." Scrapping the homelands policy would, she said, "be the first step toward abolishing apartheid."

"All of South Africa is over-regulated," replied Duncan when I confronted her with President Sebe's deregulation of business in Ciskei. "Why limit it to such a small area? All Sebe is doing," she concluded, "is enriching a small group of people. To keep power, he has to reward the top people to keep them loyal."

Back in Soweto the next day, Dr. Nthato Motlana, a major black political leader, welcomed me in the main office of his medical practice. He came to the point quickly. Parliamentary elections in all the four independent homelands have been "rigged"—"South Africa chooses fools they can control and get re-

elected," Motlana charged.

"The leaders of the homelands are traitors to the black cause, and they're not independent. How can they be, when they depend on South Africa for so much?" Motlana dismissed Ciskei and the others as "obscene" and continued: "South Africa is one country, but the white men are cutting it up into little pieces and giving them to people they favor. We want rights in a common fatherland."



John Dugard, a white opponent of apartheid, was born and bred in Ciskei. As the leading anti-Grand Apartheid academic jurist, it is a matter of wry amusement to him that it was his father who gave Ciskei's Sebe his first major boost by promoting him from school teacher and headmaster to school inspector. A law professor at the University of Witwatersrand, Dugard contends that Ciskei has the worst human-rights record of all the independent homelands. But "it should have the best," he suggested, "because it had had the longest period of contact with the whites of all the homelands."

I met Bishop Desmond Tutu in the offices of the South African Council of Churches just after his return from America and Europe, where he had been awarded the Nobel Peace Prize for 1984. More a Cardinal Wolsey than a Thomas More, every sentence was tailor-made, instantly quotable, and highly charged.

"The homelands policy," he said, in a pointed reference to Hitler's treatment of the Jews, "is apartheid reaching its final solution." And, referring to Ciskei's record on civil rights: "The elite of Ciskei are having a splendid time. They are behaving as oppressors always do in these situations. They are very apt pupils at outdoing their teachers at their own game."

Percy Qoboza, once jailed by the South African government for political activity and now the associate editor of the black newspaper *City Press*, was equally damning. Ciskei is a white creation that has disinherited blacks. It is an imposition and an abomination, a sham run by "a despot gone mad." Human oppression within Ciskei knows no bounds; people are being incarcerated without trial every week, he said.

Thus in taking Ciskei to independence, President Sebe is a "stooge," because he is a key player in the implementation of Grand Apartheid. He is a "traitor," because he is deserting the cause of the black vote in South Africa. He is a "fool," because he fails to appreciate what happens to stooges and traitors. And his civil rights record makes him a "despot," an "autocrat," and an "oppressor."

With this as my introduction, I was off to Ciskei to find out what I could.

From Johannesburg I flew to East London, which lies on the Indian Ocean at the southern end of a strip of South Africa separating the independent homelands of Ciskei and Transkei. Bishop Tutu had made a point of ridiculing the separation of two homelands by a narrow strip of land. The people in both Ciskei and Transkei, he noted, speak Xhosa (KAU-sa); if there were any sense at all to the homelands policy, "They should be one!"

The commonly accepted history of the Xhosa people, however, provides a clear explanation of the existence of two separate nations. Oral tradition holds that Bantu tribes started migrating south from the Great Lakes region in central Africa around 900 A.D. By 1650, the Xhosa tribe had reached the area now known as Transkei. In 1740 an attempted coup against the paramount chief Phalo led to a permanent split, as he and his son Rharhabe moved west across the Kei River (Transkei's western border) into Ciskei, leaving another son, Gcaleka, in Transkei.

As Phalo and Rharhabe moved west to the Great Fish River, now Ciskei's western border, white settlers were moving east from Cape Town. The Great Fish became the accepted boundary between the two groups until 1779, which saw the beginning of 100 years of struggle and nine full-scale frontier wars ending in defeat for the blacks in 1879.

Although the separation between Ciskei and Transkei was "utterly ridiculous" to Tutu, all of the Ciskeians I met were very conscious of the schism that had occurred in 1740 and proud of their ancestors' valor in the frontier wars. To many of the whites living and working in the area, the clear separation also made eminently good sense. Relations between the two groups, they said, were often not good. Indeed, it was said that even a common border could lead to trouble.

From East London I avoided the divided highway to King William's Town and Bisho and took a back road through the Ciskeian countryside. The transition from First World South Africa to Third World Ciskei was quick and stark.

Although not a particularly prosperous area, East London is not too different in many respects from Western cities. Stores, restaurants, and gas stations and trim detached homes with well-tended gardens line busy, well-paved roads. One could take photographs there, mix them up with ones taken in, say, Corpus Christi, Texas, and Portsmouth, England, and only an expert horticulturist would be able to pick out those of East London by the flora.

Within yards of turning into Ciskei—

there was no checkpoint at the border—the picture changed dramatically. Occasionally we passed a man on horseback. Every mile or so, there were groups of blacks sitting at the roadside waiting for a bus. Many were walking and obviously expecting to walk perhaps 10 or 20 miles. Women balanced large bags on their heads. Children were everywhere, some with adults and others herding cattle in the fields. Women and girls, some as young as four and five, collected armloads of firewood and balanced the bundles on their heads to walk in file back to their villages.

Most of the land was uncultivated, often stony, with few trees but many bushes. Now and then I saw strips of cultivated land with predominantly women hoeing maize, which seemed to be the sole crop.

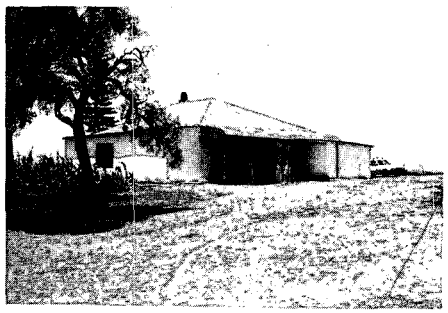
Villages were everywhere, scattered across hilltops and slopes. Typically, they numbered between 50 and 150 homes. Many were not connected to the main road, and one could see well-worn paths leading from them to the bus stops. None was marked on the largest scale map. To the extent that a map provides a picture of a country, Ciskeian cartographers could improve their products enormously by taking a large handful of confetti, dropping it, and stating that each piece represents a village.

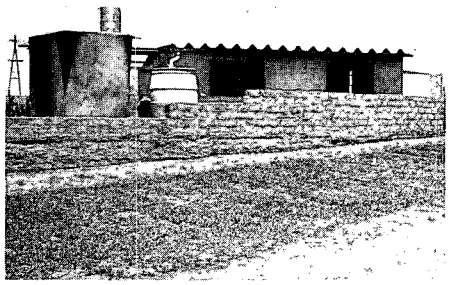
Later during my time in Ciskei I was to visit some of its urban centers such as Zwelitsha and Mdantsane, the second-largest black city in southern Africa after Soweto. Outside of such urban areas, however, rural Ciskei is typically rolling hills, small villages, and subsistence farming.

It naturally occurred to me to ask how an emerging black African country, a tiny area less than a third the size of Vermont, with no natural resources to speak of and little developed industry or agriculture, geographically isolated from southern Africa's major markets, and hived off a Western-style welfare state had, alone among the 10 homelands, hit upon a radical pro-market approach. Ciskeians, however, hadn't sat down to figure out its origins.

The best I could establish was that its base was a strong sense of history among Ciskeians, who know that their forefathers did not live the communistic way of life so many experts say they did. Communal, perhaps; communistic, never. Building on this, they had looked around their continent and the rest of the world and perceived a perfect correlation in developing countries between free enterprise and prosperity and between socialism and poverty. As one pointed out, "We may suffer bad droughts, but only Marxist African countries seem to suffer *very* bad droughts!"

A third element was their inheritance of all South African laws enacted to the date of independence, December 4, 1981. These were whites' laws and thus by definition part of apartheid and other evils to be swept away. These were the laws which, as President Sebe put it to me, "had seen small-business men chased as criminals by police dogs."





Left: An *umkwetha* undergoing the traditional initiation into manhood was eager to pose for a photo. Above: The Ciskeian families who will buy a pineapple farm chose to use the former white owner's house as a storeroom and build their own simple homes.

The final element was the work of the Small Business Advisory Service (SBAS), a nonprofit group set up in 1974 in Johannesburg by Ian Hetherington. A British-born accountant, Hetherington is the former head of the South African arm of Norton, Ltd. His route to involvement in Ciskeian affairs started in the early '70s with a belief that southern Africa was desperately short of black entrepreneurs. SBAS, funded by Norton and later by Barlow Rand as well, was the result. To date it has helped thousands of black and other entrepreneurs and drew the attention of Dr. Lennox Sebe, who had been the chief minister of the Ciskei Territorial Authority since 1973. When his party, the Ciskei National Independence Party, won the parliamentary elections in 1981, Sebe was made president of the new Republic of Ciskei.

As far back as the '70s, Sebe's speeches were singing the praises of free enterprise to the people of Ciskei. And now with independence, there was finally the opportunity to do something about it. In July 1983 his administration appointed nine experts—all white South Africans, none of them resident in Ciskei—to a Commission of Inquiry into the Economic Development of the Republic of Ciskei. The Swart Commission, named after its chairman, Nicolaas Swart, reported in December 1983, and its recommendations were immediately accepted.

The core of the report is the central role of the entrepreneur and ways in which "to accelerate the process of introducing potential Ciskeian entrepreneurs to the free market system." To achieve development, the report urged such key reforms as:

- wholesale deregulation of business, in particular small businesses, including the repeal or amendment of some 500 South African laws;
- reform of land ownership to introduce security of tenure, the right to buy and sell, and the right to consolidate and subdivide;
- privatization of large parts of current government assets and activities; and
- establishment of Ciskei as a "tax haven" that attracts investment with low taxes.

To mainstream development economists, who have dominated the guidance of black African economic policies, this was strong medicine and led to charges of "excessive emphasis on the potential role of the market." The commission,

however, held firm and responded by pointing out that it had conceded "much more to affirmative development strategies than the leading social scientists in the spontaneous order (free-market) tradition would condone."

In addition to accepting the Swart Report in full, the Sebe administration appointed a number of the commission's members to implement its policy recommendations. I met with several during my visit, spending many hours learning where they had started, what they had achieved, and where they were going.

Top: At Patrick Mbiko's small factory in Kambache (left), employment grew from zero to 50 in less than a year. A house in Dimbaza (right) has been dramatically restructured by its new owner-occupants.

Bottom: Demand for units in Ciskei's new small-business complexes (left) is brisk. An entrepreneur working in one of the complexes (right) displays his product.

Ian Hetherington of the Small Business Advisory Service is the mastermind behind Ciskei's tax-haven plans. "There was no capital gains tax, inheritance tax, or donations tax to start with," Hetherington told me—seeming cheated of the pleasure of abolishing them himself. "The heart of our legislation is that from March 1st, 1985, there will be no tax at all on corporate profits, and the income tax will be a flat 15 percent on everything over $4,000 per annum, with no deductions." (The average annual household income in Ciskei is $1,950; Hetherington said that 95 percent of Ciskei's residents would not be paying income taxes.) "The 10 percent general sales tax on everything but basic foodstuffs remains," Hetherington noted, "and there's a 15 percent flat-rate withholding on dividends, royalties, and interest paid by Ciskeian corporations to people outside the country. But that's about it!"

The corporate income tax had brought in a mere $162,000 last year, and this year is expected to bring in $750,000. This is less than one-half percent of total government revenue, so I asked him how he could view this as a major reform.

He agreed with my figures. But the new tax-haven policy, he said, must be viewed as Ciskei's industrial and employment policy of the future. Between some 200,000 unemployed Ciskeian adults (40 percent of the adult population) and 300,000 youths coming into the labor market over the next 10 years, he figures that Ciskei needs to generate half a million jobs.

The old South African policy had been to try to encourage development in the homelands via taxpayer-funded subsidies. Firms moving into Ciskei, boasted a government agency, were eligible for "the world's best package of subsidies or concessions." Government picked up the tab for 80 percent of the rent on factory buildings, 95 percent of wage bills, up to $300,000 for relocation; 60 percent of transport costs, some of the cost of housing, training, and electricity—on and on went the list.

After independence in 1981, this concession scheme was still in place, with South Africa paying half and Ciskei half. Applicable only to manufacturing industry, it had resulted in underdevelopment of the retail sector and much Ciskeian income being spent across the border. The cost per manufacturing job generated was at least $10,000. Many were highly marginal, and besides, the money was simply not available. "If of the half-million jobs we need, say 200,000 were in manufacturing, the cost of this route would have been $1 billion for Ciskei alone," noted Hetherington. "In every respect this policy was nonsense."

The conclusion of his work was that Ciskei would be far more likely to attract the jobs it needs if it offered tax-haven status to all entrepreneurs, be they in manufacturing or any other sector; Ciskeian, South African, or any other nationality. The tax-slashing legislation was approved in July 1984, along with measures designed to break the subsidy game and encourage firms to go tax-free.

The concession scheme remains an option for a while—under the multilateral agreement between the four independent homelands and South Africa, Ciskei could abolish it completely only with two years' notice. Such notice of withdrawal was given in November. Meanwhile, a firm that opts for the concession route must pay a 50 percent corporate income tax. But it is a tax whose days are numbered. Every payment is being credited against concessions received, plus interest, and when the last such penny has been paid off, all companies in Ciskei will be tax-free.

Along with abolishing the corporate income tax, Hetherington had taken the opportunity to simplify the remaining tax structure as much as possible. "It is totally crazy for a poor emerging nation to have anything but a simple flat-rate system that everyone can understand," he explained. "South Africa keeps increasing its taxes and the complexity of its system. We're going in exactly the opposite direction."

Leon Louw, a lawyer and a principal figure at Johannesburg's Free Market Foundation, is the architect of Ciskei's land reform. Land in Ciskei is predominantly in public or quasi-public hands: 50 percent is controlled by the Tribal Authorities and allocated to individual and communal use, 30 percent is owned by the government, 15 percent is controlled by a governmental Agricultural Corporation, and at most 5 percent is privately held. Under legislation embodying the Swart Commission's proposals and expected to be passed soon, several fun-

damental rights are being added to the present pattern of land ownership: freedom of exchange, freedom of consolidation and subdivision, and security of tenure.

All previous attempts at African land reform, claimed Louw, have involved central government overriding tribal customs. These attempts have failed, and he is seeking to get a market going instead of legislating a particular pattern of ownership and use.

The drama of private property: In Mdantsane, a standard public-housing unit stands in contrast to a once-identical unit that has been remodeled by its new owner-occupant.

The 50 percent of Ciskei's land traditionally allocated by Tribal Authorities may now, at their discretion, be bought and sold. "Our aim is not to override them," Louw reiterated, "but to set up a system which they may implement or alter to suit their needs." He sees signs that privatization is going to be popular. "The only restriction I envisage any of the Tribal Authorities imposing might be something to the effect that some land in a particular area may be sold only to a member of that tribe."

Turning to the 30 percent held by Ciskei's government, Louw talked of the Swart proposals to hold "well-advertised public auctions" to transfer it "into unencumbered freehold title." And to privatize the 15 percent held by the Agricultural Corporation, a variety of schemes is being contemplated, ranging from converting government-run projects to public companies and selling off shares, to selling farms to individuals or groups of families.

Ciskei has already removed restrictions on who can purchase land, Louw noted. "There are no nationality, citizenship, or residency requirements." Building regulations and zoning have been foresworn in favor of market determination of such matters. "Once the new reforms are in place," he concluded proudly, "it will be the freest private land in the world." And that's in a country where, five years ago, blacks were allowed no land ownership and there was absolute government control over the granting and transfer of occupational rights in all land.

Louw is also the principal author of Ciskei's Small Business Deregulation Act, which was passed in July and went into effect in September 1984.

On gaining independence, Ciskei inherited all of the legislation passed up to that date by the South African parliament. My investigations in South Africa had convinced me that its economy was probably more regulated than that of the United States or even the United Kingdom. Louw confirmed my suspicion and cited the example of a small trading store in rural Ciskei, which had had to get 36 different licenses, permits, and so on to operate.

Reviewing all of South Africa's legacy of regulation to see whether there was anything Ciskei wanted to retain "would have taken years," said Louw in explaining his subcommittee's approach. "We wanted to get off to a quick start." Consequently, they chose an alternative route, legislation that specified an initial list of 80 acts, dealing with everything from abattoirs to workers' compensation, that would no longer apply to businesses employing 20 or fewer. Louw stressed that this quick start only scratches the surface—although the store that needed 36 licenses now needs none. For digging down deeper the act established a Small Business Commissioner to supervise ongoing deregulation, or, as it was often put to me, "the removal of white man's law from black business."

The commissioner's powers are wide-ranging, including even the power to exempt a business from a regulation over the phone. When this happens, the commissioner follows up with an investigation and recommends either keeping the regulation, abolishing it for all businesses, or exempting a certain class of business. His day-to-day task, however, is to sift through every existing regulation, ordinance, statute, and bylaw to recommend to Ciskei's parliament additional exemptions.

Clause 9 of the deregulation act stipulates that all of this shall

> be guided by free market and common law principles, including the following—
> (1) No person should violate the common law rights of another, except by way of lawful self-defence or retaliation in the protection of personal or property rights by reasonably necessary means.
> (2) All persons should be free to engage in mutually volitional transactions upon mutually and volitionally agreed terms.
> (3) There should be freedom of contract, exchange, association and disassociation.
> (4) The law should respect and protect personal and property rights.
> (5) The principles of liberty, the rule of law and natural rights should be upheld.
> (6) No person should use fraudulent or dishonest means of trade.

Louw expects another 25 acts to be added to the list of exemptions this spring and predicted "that big business will soon start to cry wolf and demand the same exemptions. This way we will gradually build up pressure for and acceptability of the same reforms for everyone."

One of the next targets for Louw's Law Reform Subcommittee is banking laws. A delegation of seven Swiss bankers and others were expected in late January to advise how Swiss-style confidential banking could be set up in Ciskei.

President Sebe seemed confident that the Swiss would find Ciskei attractive. On a recent visit to Switzerland, he said, the first question was always, "Can you balance your country's books?" He'd replied yes. "For how many years?" was the rejoinder, to which his reply had been, "Ever since independence!"

To me he noted: "You discipline the whole nation by having no deficit. It makes everyone draw up their priorities properly, and it sets an example to the people."

Louw's subcommittee is also drafting labor legislation, which he hopes will be "indicative rather than coercive." In other words, it will lay out standards and specify that they apply unless the employer and employees in a workplace agree otherwise.

"There's lots of good theory" about free markets, Louw commented wryly at one point, "but nothing that tells you how to set an economy free." He hopes that the work of the Swart Commission members will prove useful in free-market reforms elsewhere.

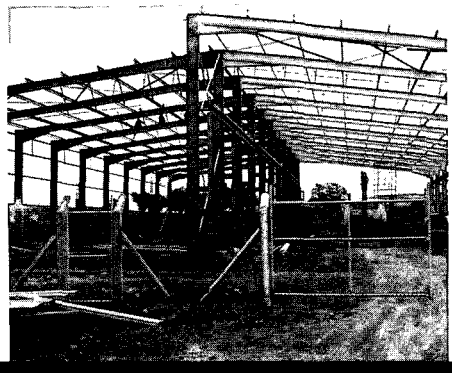
Gert Hendrik Claassen is a consulting engineer from the South African city of Durban who now holds a number of positions in Ciskei. Inter alia he is executive director of its National Housing and Urban Development Commission and managing director of the governmental Townships Corporation.

His office is in Bisho, the capital of Ciskei, and is situated on the second floor of its first shopping mall—one of the few places in the whole of southern Africa

where blacks and whites do business side-by-side.

Bisho itself, a new city being built from scratch on a bare veldt, is the subject of much derision in South Africa. In some circles, it is considered laughable that Sebe should be behind building a "capital." In others, it is thought to be a criminal waste of South African taxpayers' money.

To date, Bisho amounts to only a handful of buildings: the Parliament and related offices, a radio station, the Supreme Court, one hotel with its casino (gambling has been legalized), a supermarket and office complex, a shopping row, and so on. And when Claassen showed me a gigantic scale model of how the capital would look in a few years' time, all my worst memories of four years as a councilman in a highly bureaucratic, Marxist London borough came back.



Today, new industrial facilities are continually going up in Dimbaza. Ten years ago, the British Broadcasting Corp. filmed a doleful documentary about the future of the region's blacks.

Claassen conceded that Bisho is "a political creation." Yes, some of the buildings planned were more government offices needed to relocate certain Ciskeian agencies located temporarily in South Africa. Yes, much of the initial capital outlay had come from government sources. Other than that, though, he thought I would find his approach to the city's development radically different.

It is, he insisted, "a total free-market, free-enterprise approach." The City Corporation was laying down some infrastructure, but "private enterprise will do the rest." The gigantic scale model was only to suggest how Bisho might look as it develops.

"There will be the bare minimum of planning controls. About all we are asking is for adequate sanitation and some fire hazard safeguards. What will happen to certain stands (lots), I have no idea. Obviously, if someone wants to build an abattoir in the middle of housing, I would step in and veto it. But given a free market and all that implies, I don't see such cases emerging."

His aim is to keep the total staff of the city at its current level of 10 and "to privatize as much as possible." As the city grows and new services become appropriate, they will be offered privately. Refuse collection, for example, is already in the hands of two private companies, and his model, he said, is Robert Poole's guide to privatizing government services, *Cutting Back City Hall.*

Ciskei's radicalism is no less evident in its approach to housing. Claassen showed me the recently revised National Housing Policy, which declared that "housing shall become a free enterprise activity . . . based on private ownership at every level."

"Ciskei had inherited a socialist approach to housing," he explained. Housing consisted of either government-owned units in the urban areas or the shacks and huts that dotted the rural areas. Prior to independence, freehold ownership had not been permitted in either case. In the three years since, 25 percent of the housing in urban areas, such as Mdantsane and Zwelitsha, had already been bought by tenants.

So far, the government had been selling off public housing by converting rent payments into mortgage payments. Come July 1985, a more radical scheme would go into effect. For every year of tenancy, prospective buyers will receive a $10 discount off a purchase price related to the original construction cost, adjusted for inflation. The cheapest would be $950, the dearest $4,650. If buyers pay cash, they get a further 20 percent off. And to encourage as high a rate of sales as possible, Claassen has announced that the prices of these units will rise 10 percent a year from July 1986 on.

"We are keeping the whole scheme as simple as possible," he told me. "The more you put up artificial barriers, the more people will look for loopholes." Consequently, there is no minimum period of tenancy in order to buy, there are no restrictions on resale, and if the tenant turns down his first option to buy, the property will be available for sale to what Claassen hopes will be a new, emerging class of landlords. Furthermore, there will be no restrictions on the establishment of private lending institutions. And with so many regulations coming off housing in particular and business in general, he foresees many new forms of housing finance being generated by the market.

Virtually everyone I met in Ciskei is enthusiastic and determined to benefit from the economic reforms I had discussed with the Swart commissioners.

Phil Parkin, an English South African, is the chairman of the Ciskei Chamber of Industries. We met in his office at Ciskei Milling, in Fort Jackson, where he employs some 200 people. A giant of a man—he would dwarf even an NFL fullback—he was hugely enthusiastic about the "snowball of development" he saw coming. As Ciskei was abolishing taxes and South Africa was increasing them, he predicted that within five years neighboring South African towns would beg to become incorporated into Ciskei.

"We don't want the concession-mongers attracted by the old scheme," he said. "We want genuine entrepreneurs coming in for tax breaks, not for handouts. This will decrease our dependence on South Africa, and the retention of all corporate profits will lead to even more investment, more jobs, and more prosperity."

Frans Meisenholl is managing director of the Ciskei Peoples Development Bank, a governmental unit that the free-marketeers hope to get out of the business of loan-making. Located in South Africa's King William's Town, it is soon to move 10 minutes up the road to Ciskei's Bisho. "The problem with subsidies," said Meisenholl, "particularly a wage subsidy, is the negative effect they have on productivity. Our motto is, 'It's a sin not to make profits,' and we don't ask for grants or foreign aid. Instead, we say to an individual, 'Here's a great opportunity: no company tax and very low personal tax, so come and make a go of it.' " He knew of many companies waiting for the tax reforms to come into effect in March before signing up to move in.

Enroute to an appointment with Ian Duncan-Brown, managing director of Dimbaza Foundries, I stopped at the Dimbaza graveyard. I stood on the spot where 10 years earlier the cameras of the British state-owned BBC had been set up in Ciskei to film "The Last Grave at Dimbaza," a liberal documentary dripping with pessimism about the future of the region's blacks unless massive foreign aid were forthcoming. To my left was the town—by Western standards poor, though I have seen much worse in British public-housing developments. Most of Dimbaza's houses had TV aerials, however; most were connected to telephone wires; a number had cars; and many had obviously been bought, for they

were being transformed beyond all recognition. To my right, the area that on BBC had been open veldt was now a busy industrial park. Factories of all sorts sat in the shallow trough of land, and on the far fringes even more buildings were going up and new ground being broken.

Ian Duncan-Brown had himself been breaking ground for his original foundry the day the BBC came to make its doleful film. Seven extensions later, he employs 400 people and every month turns out 500 tons of steel crushing equipment for quarrying and mining. Three-quarters of his production is exported worldwide. As enthusiastic as Phil Parkin, he sees the tax reforms "changing the caliber of entrepreneur attracted to Ciskei. Now guys will be coming for the tax saving, and by definition that means they will be making or expecting to make a profit very soon."

To former Californian Don Saul, a manager with the Ciskeian government's Small Business Corporation, the deregulation act was "fantastic." "It will take time, but it will make a big difference," he said. "It's like abolishing OSHA and more back in the States. It means that all the informal-sector businesses in Mdantsane, say, can now come out of hiding in their backyards and really get to work without any fears."

His Ciskeian staff showed me around small-business complexes, one in Zwelitsha, the second in Mdantsane, built by the corporation. The demand for the units was enormous. In Mdantsane the local manager had closed his waiting list when it reached 350; he has 47 units. "As soon as they're viable," explained Saul, "we try to get them to buy the unit, so we can plow the money back into more new units."

The units were very basic, all identical, but the businesses they housed ranged from tailors, hairdressers, welders, and carpenters to engine tune-up and body shops. Between the towns we stopped at Kambache to visit tailor Patrick Mbiko, whose payroll had soared from zero to 50 in under a year. But Mbiko was out—hunting for more workers! His wife and brother showed me their small two-room factory, which was turning out 1,400 children's jogging suits a day for a US chain of stores.

And black business, church, and other spokesmen were just as enthusiastic about the economic reforms.

L. F. Siyo is a butcher and funeral director who employs 7 and 14 in his respective businesses. He is the chairman of the Mdantsane Chamber of Commerce but also a member of the Committee of Twenty, a civil-rights group, so he does not necessarily see eye-to-eye with Ciskei's President Sebe on everything. He was categorical, however, about the benefits of "Sebenomics" to small business. Mdantsane was quiet and stable, and he foresaw a very good five years. Unemployment was still too high, but all that was needed now was more industry. Siyo concluded our conversation by confirming what a number of whites had already suggested: "People see the chance of prosperity in Ciskei. They're running away from the violence of South Africa and coming back."

I met the Rev. Patrick Ncaca, the local Anglican archdeacon, and the Rev. E. A. Plaatjies, the local superintendent of the African Methodist Episcopal Church, in Ncaca's home in Zwelitsha. "For over 300 years," said Ncaca, "this was an arid, underdeveloped land. Now we are getting free enterprise, development, and job opportunities. We never dreamt that this was possible."

Both of them considered the proposed land reform both good and popular. "We used to build on or farm land that was not ours," said Plaatjies. Tax reform, it is true, will bring foreign investors and entrepreneurs, but "the answer to unemployment is more industry, and we are ready to welcome all who come," said Ncaca. He concluded: "As church leaders, we express our highest appreciation for the tax and land reforms. Tell America to come and see for itself what is happening here in Ciskei!"

Probe is the only black-owned magazine in the Republic of South Africa. Published in East London, just over Ciskei's eastern border, its editorial policy is "justice for all." Editor Leslie Xinwa is a Ciskei watcher who has many criticisms of Sebe on civil liberties. But "Sebonomics" is to Xinwa a "just" policy. The economic development, particularly at Dimbaza, is "impressive, even mind-boggling." It used to be a major media event when a new factory opened. Now so many are opening, firms don't even issue a press release. The economic reforms, said Xinwa, are "virile and sensible."

"The strongest political statement you can make is to make a profit."

All the optimism in Ciskei stood in stark contrast to the warnings and worries I had encountered from nearly everyone in Johannesburg and Soweto. Few of those pessimists had ever been to Ciskei, but one who had—Sheena Duncan, the Black Sash activist—warned me of "drunken, machine-gun-carrying policemen terrorizing whites and blacks alike." She added with a dry laugh, "At least the whites are reasonably safe here in South Africa."

I remembered this warning when I was asked, after three days traveling all around Ciskei, "What did you expect to see when you came here?" It occurred to me that I didn't remember having seen a single police officer. "What color uniforms do your police wear?" I asked. "Green," was the answer. So I kept a look out the rest of the week but never did see anything more than two traffic cops—in brown—operating a speed trap just east of Dimbaza.

Everywhere I traveled in Ciskei, I put criticisms I had heard in Johannesburg.

Ciskei, they objected, is a one-party state. It is true, said Ray Mali, chairman of the Ciskei National Independence Party (CNIP), that the two opposition parties of the recent past have joined the CNIP. But people are free to start other parties, he said. (In fact, running for office in Ciskei appears to be about as difficult as getting on the ballot in the United States.)

Mali insisted that the "one-party-state" criticism showed a lack of understanding of Ciskeians' culture and history. "Although we are committed to sound democratic government, we have always said we will retain our traditions. One such was that the chief would call together his advisers for an 'indaba.' " The traditional *indaba*, he noted, is a discussion or debate that by definition leads to a consensus. "There are opposing views within the CNIP," Mali went on. "But we meet to discuss them and to reach a consensus. We have political freedom according to our standards and culture."

Ciskei's independence, they charged in Johannesburg, is a pretense. The rest of the world refuses to recognize it (or any of the other independent homelands) as a state, its government is controlled by South Africa, and it is totally dependent on South Africa's overtaxed taxpayers.

In many places Ciskei's border with South Africa is unmarked, and one can travel between the two without knowing it. But it *is* a border. Tax rates are different, legislation is different, and both are becoming increasingly different. Sig-

nificantly, on one side of the border, there is racially based legislation, on the other, none.

Willie Breytenbach, the top South African civil servant specializing in constitutional development, works in President P. W. Botha's office in Pretoria. "De facto and de jure, Ciskei is independent," he said. "The lack of international recognition does not mean it's not a state. It just means it's a state without international recognition."

"Genuine entrepreneurs will decrease our dependence on South Africa."

Moreover, he noted, "independence is not forced on the homelands. They opt for it voluntarily." As evidence, he cited the case of KwaZulu, which "does not want independence, and Pretoria can't force it on KwaZulu."

If South Africa's government controls Ciskei's, it is not doing very well at it. Breytenbach made it clear that South Africa does not like Ciskei's free-market reforms, "especially not the abolition of the corporate tax. It will lure South African companies offshore, and it sets a precedent for other homelands."

For his part, Chief Mavuso, one of Ciskei's tribal leaders, rejected the idea that the number of whites holding top civil-service positions in Ciskei is evidence of control by the white South African government. Whites, he countered, are employed only in specific technical areas where their expertise is needed.

Tax expert Ian Hetherington had taken me through Ciskei's revenue account, and my first impression had been to agree with the charge that Ciskei is heavily dependent on South Africa. But Hetherington insisted that the 80 percent of total revenue, or $140 million, that comes from South Africa is not charity or foreign aid: $60 million is money that South Africa was at the time of independence contracted to spend anyway—pensions to individuals, for maintenance of South African roads, and so on. Another $60 million is Ciskei's share of duties from the common customs union. Rebating of Ciskeian income tax paid in South Africa accounts for $6 million. And so on, line by line, Hetherington whittled it down to a final $12 million that he reluctantly agreed might be considered "not Ciskeian revenue by right." But that's hardly "total dependence."

Charges of corruption, too, rang in my ears as I had proceeded from Johannesburg to Ciskei. Newly independent Third World countries are notorious for corruption and bribery. But with one exception, I failed to detect the slightest whiff of it.

Ciskei manufacturer Phil Parkin told me of corruption in the other homelands, "but I've never seen the fingers in the cookie jar here." And Gert Claassen of Ciskei's housing department described the government as "honest." He continued, "There's not been the slightest hint of corruption in any of the contracts I've been involved in, and two amounted to $35 and $45 million."

There were complaints of *uhuru*, or freedom, hoppers. Latterday "carpetbaggers" of the post–US Civil War era, they are also known as "Messrs. Ten Percent." They move around newly independent countries with grandiose schemes at their fingertips, ripe for central government financing. Such people will have a plan, a scale model, and a contract ready for inspection and signature for everything that a new president might wish for his people.

On the record, everything in Ciskei was perfect—no hands in the till. Off the record, the name of one cabinet minister and one *uhuru* contract came up repeatedly. In some ways, it was reassuring. First, there was outrage; second, there was confidence he would be caught; and third, if this was the total scale of corruption in Ciskei, then it probably had the best record on the continent.

But the strongest criticisms of Ciskei put to me during my investigation concerned its lack of civil liberties. As charged by its critics, it had inherited and kept and was using with utter abandon the white South African internal security laws. That whites would use such methods against blacks was utterly evil; that blacks would do so to fellow blacks was infinitely more so. They mentioned again and again a major boycott of Ciskei's government-run buses in 1983 in opposition to an 11 percent fare increase. Reaction to the boycott, which lasted several months, had included the detention of hundreds, as well as torture, rape, harassment, a curfew and state of emergency, and deaths and injuries by gunshot, allegedly by the police. Some of what was claimed is undoubtedly true. Ciskei's gross abuses of human beings cannot be defended, but one can comment on their scale and add some perspective and context.

In Johannesburg, I was told that Ciskei's jails are overflowing with hundreds of detainees. Nearer Ciskei, in East London, the editor of the black-owned magazine *Probe*, Leslie Xinwa, said the number was about 30. In his temporary King William's Town office, still in South Africa, CNIP Chairman Ray Mali said it was 5 or 6 and described detention in tribal terms as "a cooling-off period." And next door to President Sebe's office in Bisho, Chancellor Nico Ferreira said the number of detainees was somewhere around 10.

"I've read every local press clipping for the past three months," I countered, "and I've put together a list of about 20!"

"Is one of your 20 the director general of education, the man this morning's papers say is locked up?" asked Ferreira.

I nodded.

The chancellor smiled. "He's sitting outside my door, waiting to see the president. You just walked by him."

Whatever the figure—probably no more than 20 and certainly not hundreds—Sebe readily admits that detention without trial exists in Ciskei. But the state, in his view, has a duty to protect the individual, and in return the individual has an obligation to play by the rules. He claimed that those detained were not playing by the rules of a free society.

I took out a press clipping that listed four current detainees. Why are these men locked up, I asked? He took me through each case in some detail. Qeqe had allegedly been caught trying to smuggle plans of both of Ciskei's jails out to Transkei. Metele, he said, had been detained for possession of "half a ton of action committee literature supplied from Russia with money." Sandi was accused of murder, and Diabantu, a Ciskeian Intelligence Services officer, was thought to be a double agent, caught in radio communication with Transkei.

Helen Suzman, a Progressive Federal Party member of the South African Parliament, had recently been through the same material with Sebe. Early in 1984 she had talked in Parliament of "millions of blacks in Ciskei" being subjected to "the tender mercies of a vicious tyrant like Sebe" (although Ciskei has only a million residents altogether). To his credit, Sebe had invited her to come and see for herself, to go within Ciskei wherever she pleased. She too had been taken through the background of current

detainees. Sebe claims she said to him, "All the ministers of justice in South Africa have never explained it the way you do." To my inquiries, she responded, "My statement stands. Sebe's explanation is the usual story. He showed me only the genuine or convincing cases. My opposition to detention without trial has not altered."

Other than this issue, however, she was apparently impressed by much of what she saw, such as the dedication of the people under very adverse conditions, the deregulation and tax reforms, and Sebe's openness and honesty. She was allowed to go wherever she wanted and talk to whomever she chose, and Sebe actively encouraged her to see not only the good but the bad and the ugly.

Blacks and whites do business side-by-side at the shopping mall in Bisho.

Phil Parkin's assessment of Ciskei's troubled record is that it had been "blown out of proportion" and that much of the criticism of Sebe is "somewhat unjustified." Mdantsane, he pointed out, is the second-biggest black city in southern Africa. "No other black homeland leader has such a place where foment can begin." (The largest is Soweto, with a population of 2 million. Mdantsane has half a million. And the distant third is Ga-Rankuwa, in Bophutha Tswana, with 100,000.)

At the time of the bus boycott in Mdantsane, "Sebe was an inexperienced head of state with a very difficult situation on his hands," explained Parkin. His optimism was guarded, but he saw a good track record on both economic and civil liberties emerging in Ciskei.

Had there not been a ban on church services one Sunday, I asked church leaders Ncaca and Plaatjies? Yes, they said, but they blamed it not on Sebe, who is an elder in the Congregational Church, but on a low official. Yes, it had damaged Ciskei's image, but they were vehement that there is complete freedom of worship. Not only that, said Ncaca, but "Sebe has stated time and time again publicly that it is the obligation of church leaders to criticize the state if they see injustice."

Finally, I tackled Swart Commissioner Louw. How could he, a staunch advocate of individual liberty, advise a government that detained people without trial? How could he work with people who banned a trade union? How could he be involved with the forced resettlement of blacks from South Africa to Ciskei, which resulted in horrors such as Ndevana, a poverty-stricken resettlement camp I visited in Ciskei?

"Forced resettlement of blacks is part of South Africa's Grand Apartheid," he countered. "It's part of the drive to get all blacks other than migrant workers into the homelands." And although one study has reported that a quarter of Ciskei's current population came there as a result of resettlement over the last 10 years, Louw claimed that since independence in December 1981 there had been no forced resettlement to Ciskei.

On the union question, he acknowledged that the government had banned the major organization, SAAWU, in 1983 and had detained some of its leaders. "Anti-unionism is part of Ciskeian conservatism," Louw explained, and he hoped the new "indicative" labor legislation his subcommittee is drawing up would allow a union movement to emerge in a manner consistent with a free society.

On civil liberties in general, he contended that Ciskei can be compared to many countries around the world generally regarded as free. The Ciskei government had found Soviet weapons, he said, and the government's offices had been bombed. "Very few people in the world oppose detention to deal with terrorism," he pointed out. "Detention is seen as part of apartheid, but it has nothing to do with it—most countries have such a power."

As for due process, "Detainees here, such as the president's brother (the former head of Ciskei's security forces, jailed in 1983), tend to come to trial, be found guilty, and go to prison. It's not a mock trial, we have the British system of innocence until proven guilty, and the onus of proof is on the state.

"Under my chairmanship, the Law Reform Subcommittee will be making recommendations on detention and civil liberties to the government very soon. If accepted, they will overcome most of the remaining criticisms," he argued.

Ultimately, says Louw, the economic freedom that Ciskei's critics dismiss as "beside the main point" can end up addressing that very point. "By increasing economic freedom, one is not condoning the absence of freedom elsewhere. Nor is one, by increasing freedom in a homeland, condoning apartheid. On the contrary, one is undermining apartheid, and I can think of no better way of doing so."

I had left California with a clear brief: find out about the economic reforms in Ciskei and assess whether they might serve to prod the South African government away from its loathsome apartheid policy. I had left Johannesburg with no more information on economic reform than I'd had on arrival, but with political pessimism ringing in my ears. I was leaving Ciskei with notebooks full of information and a great many ifs about the new country's situation.

Three hours after my plane touched down in San Francisco, I watched a CBS-TV news segment on Ciskei. The largely misleading report—for example, segregated trains depicted as Ciskei's are actually the South African government's, and Ciskei is no more "propped up militarily by the South African government" than is Ohio by the US government—culminated in derision for Ciskei's economic reforms.

Government advisors, noted the report, are saying that Ciskei could be another Hong Kong, but "so far it is a wasteland dotted by status symbols" (said as the camera moved in on a statue of President Sebe). Having just returned from Ciskei, I knew that CBS's camera crew, to get to the spot in the middle of nothing where there is indeed a statue of Sebe, had to drive along the outskirts of Dimbaza, passing within yards of large factory buildings—hardly "a wasteland."

There is no question that Ciskei faces daunting odds. The degree of poverty and unemployment was recognized by all I met there. Yet there was a very strong sense of hope and confidence.

Small-business deregulation was obviously working. The informal sector had come out of the regulatory closet—as evidenced, for example, by the scores, even hundreds, of previously illegal taxis and *kombis* (minibuses) plying for trade in Mdantsane and elsewhere. With deregulation, all their operators needed was a driver's license, insurance, and a vehicle license. Many journeys take them over the border, and South Africa was soon complaining about these "unlicensed" taxis. Ciskei obligingly started requiring a taxi license, but the joke's on South Africa—Ciskei's new taxi license is as easy to buy as a postage stamp!

The privatization of public housing was just as obvious a success. The improvements that new owner-occupiers

were making to what were now their own homes were more startling than anything I have ever seen in privatized public housing in Britain. At the very least, new window frames, new doors, new paint work, and so on had been undertaken. And in many other cases the houses had been restructured beyond all recognition.

It was too early to judge the likely impact of land reform when it comes through. Likewise the tax-haven status, which was still a few weeks from coming into effect when I left Ciskei in mid-January. Potential investors and entrepreneurs were clearly interested in Ciskei, however. I observed a constant stream of businessmen in Bisho's one hotel, whose management was looking at plans for adding on a second extension.

Meanwhile, privatization of government assets and functions proceeds. Sale of the bus system is in the works; the only argument is whether the buses should be sold singly or as a unit. Stuart Farrow of the Agricultural Corporation took me to a pineapple farm tended by a commune of 10 families, a formerly white-owned farm bought out by South Africa and turned over to Ciskei. Once the farm is running again, the commune is to buy it from the corporation.

Everywhere, free enterprise and private property were being grafted onto the old system in innovative ways. But how durable is Ciskei's free-market approach?

Three days after I returned to the United States, President Sebe was admitted to intensive care in an East London hospital. Officially, it was a mild heart attack; he was in good condition and responding well. Unofficially, there was news that it was a bad stroke coupled with kidney failure. His illness coincided with a recent cabinet reshuffling that had seen the axing of the two senior chiefs. This was, I learned by phone, leading to speculation that Sebe would step down.

Sebe has by wide acknowledgment been a leading force behind Ciskei's dramatic move to free enterprise. "It is the only salvation for my people," he had told me. "If I deviate, I will be betraying them for a pot of porridge." But I also had found widespread agreement that not just Sebe but Ciskei is committed to the free-market path.

So far Ciskei has resisted pressure from South Africa to abandon its economic and tax reforms. When Willie Breytenbach in President Botha's office had admitted South Africa's dislike for the reforms, he had added, "South Africa and the four independent homelands are an economic Club of Five. If one breaks the rules, one can be thrown out, like Cuba was thrown out of the OAS and Egypt out of the Arab League."

In that case, I had asked, what would happen? "Ciskei would forfeit its access to the Development Bank of Southern Africa," said Breytenbach, "and it would be out of the Customs Union." Matters were not yet at the crisis stage, he had said, but warning signals were being sent to Ciskei.

To some analysts I had talked with, this spelled good news for Ciskei. Out of the Customs Union, it could establish itself as not only a tax haven but also a customs and excise haven, like prosperous Hong Kong (which is one-seventh of Ciskei's size). Out of the Development Bank, Ciskei would not be tempted to make possibly wrong investments using artificially low-interest loans. And, some even speculated, why not also leave the Rand Monetary Union, which is plagued by South Africa's soaring deficit, uncontrolled money supply, and rocketing inflation? Fiscally conservative Ciskei was determined never to run a deficit, and a sound Ciskeian currency, they suggested, would be preferable to the current situation.

And so it goes. While the media in the West insist on calling the homelands "nominally independent," little Ciskei in effect thumbs its nose at South Africa. And while anti-apartheid activists in Johannesburg and Soweto accuse the independent homeland leaders of betrayal of the cause, the homelands proceed in liberating ways that the South African government undoubtedly never envisioned.

All four of the independent homelands have abolished the "race laws" inherited from South Africa. Ciskei is leading the way with economic freedoms and property rights, reforms that other independent homelands are now reportedly considering. BophuthaTswana, I was told, has put in place civil-liberties protections that Ciskei could now emulate. And Chief Gatsha Buthelezi, the leader of the largest tribal group, is resisting pressure from South Africa to take KwaZulu independent unless Zulus will be able to retain South African nationality.

With Buthelezi's move, the homelands policy as Grand Apartheid may be on its last leg. If the critics of Grand Apartheid are correct, the homelands policy was conceived as the ultimate in apartheid. Blacks would be stripped of South African citizenship and nationality, thus removing the need to accommodate them politically in South Africa. But the very independence necessarily granted blacks under that policy appears to be leading to its demise. In its place, what?

A week and a half after my return, President Botha opened the 1985 session of the South African Parliament with a call for far-reaching reforms, including acceptance of blacks as permanent urban residents (not the "guest workers" of Grand Apartheid); freehold property rights for blacks where they live, work, and farm; an end to forced resettlement of blacks to their "native" homelands; and a solution to the question of South African nationality and citizenship. According to one government official, the biggest factor behind the proposals was the "strong and persistent arguments" of black township officials and homeland leaders against the government's present policies. Ciskei and the other homelands—although the suggestion is anathema to many anti-apartheid activists—may just turn out to be a Trojan horse that ultimately destroys the apartheid that led to their establishment.

If so, and if Ciskei sticks to its free-market reforms and puts its civil-rights house in order, this tiny black African nation could end up offering the troubled continent a new model of development. It would be a delicious irony.

"The homeland concept," Anglican Archdeacon Ncaca had said to me back in Ciskei, "is not the dream of the black. But—and it's a very big but—through this system we have seen wonderful development. The humiliation of the black in the urban areas of South Africa stinks. Now I have tasted black government here in Ciskei, there's no way I want reincorporation in South Africa.

"There's no such thing as a perfect state, and Ciskei is not perfect. However, it is a free, stable country, and Ciskeians feel more secure here than in South Africa."

And Ciskeian entrepreneur L. F. Siyo: "People see the chance of prosperity in Ciskei. They're running away from the violence of South Africa and coming back."

And Ncaca again: "Tell America to come and see for itself what is happening here in Ciskei!" ◧

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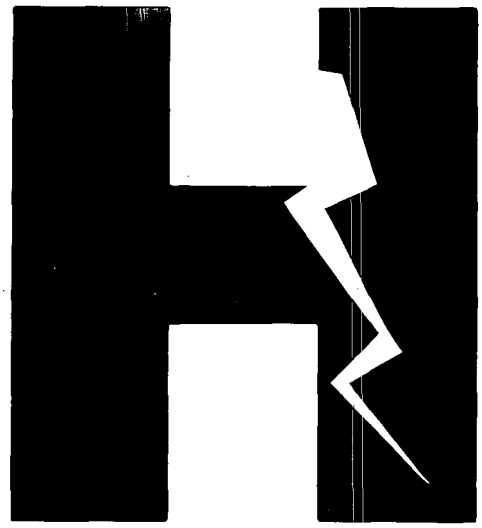
By Douglas A. Houston

The road from utility regulation to a free market is strewn with consumerist objections. A futuristic scenario shows a way through.



ow to Short-Circuit the Utility Monopoly

Good evening, and welcome to the "Nightly Report" for January 1, 1995.

In a special session today the California legislature passed a far-reaching bill to decontrol the state's electric-utility industry. The bill, which allows consumers to opt out of the regulatory structure, is based on legislation already in place in the state of Sasnak.

It was 10 years ago today that Sasnak undertook its unprecedented experiment, allowing each consumer to decide whether he or she wants to be "protected" by state regulation of the electric-utility industry. Thus began the gradual decontrol of the industry through the use of so-called consumer market options.

With me tonight is John Berry, the head of Sasnak's Public Utility Commission. Berry was instrumental both in pushing for the enabling legislation and in assuring that the plan was well understood. He now presides over a commission whose duties shrink yearly. "That," he says, "was precisely my intention when I took this job 10 years ago."

Reporter: Well, Commissioner Berry, Sasnak certainly has taken a different direction from other states in treating electric utilities. How far has deregulation moved in 10 years?

Berry: Currently, 70 percent of the state's electric-power sales are not regulated in any way. These purchases are generally made through private contracts between sellers and buyers. By the way, the producers in this industry now are simply firms. The "utility" tag is a description of how government has historically treated them and is really inappropriate.

R: How so? The problem in this industry is monopoly power, isn't it? Aren't the three basic components of the electric industry—generating plants, transmission lines, and local distribution systems—all controlled by one firm in a given area because that's the way to get the lowest-cost service?

B: You're right in part. Generation stations, whether powered by coal, oil, or nuclear fuel, have to be pretty big to be economical. And operators of both transmission lines and the systems that distribute power to the end users also can lower their costs by carrying large volumes. In a nutshell, however, the industry's so-called problems are largely consequences of the massive investments required for constructing generation, transmission, and distribution facilities. These investments are

"sunk"—if things go sour in the future, the firm can't pick up assets or shift them to some other use. The transactions in this industry—from plant to transmission system, transmission system to distribution system, and distribution system to consumer—are highly specialized. No one link in the production and distribution chain has an obvious "fall back" strategy to protect its sunk investments.

These sorts of "transactions" problems are precisely why we should expect "vertically integrated" producers—that is, one firm owning generation, transmission, and distribution facilities.

R: That seems to solve the *producers'* problems all right. But you just explained that consumers are caught up in the same unique problems—they don't have many alternatives to a single supplier. Isn't this why we have public utility regulation—to protect consumers, who must rely on one electric-power company?

B: Perhaps. The consumer does face a very knotty buying problem in a market free of government regulations.

R: Then how in the world has Sasnak deregulated this industry? Isn't it just sending lambs to the slaughter?

B: Decidedly not. No user in this industry is forced to accept deregulation unless he assents. That was the rationale for the "market option."

R: We've heard a lot about this "market option" device. Perhaps you could explain how it works.

B: Gladly. Although it sounds abstract, the thing is very real. When we started deregulation 10 years ago, nothing was "done" to the industry other than the following. First, we eliminated the exclusive aspect of a utility's franchise agreement—that is, an electric-power company was no longer protected from competition. Second, we did *not* halt our existing regulatory practices; service and price controls were continued. But, third, we gave all utility customers a little piece of paper that we call a "market option," and we told consumers that if they wished to continue with regulation, then they should *not* sign these options. Once signed and publicly recorded, an option is "exercised." By exercising an option, a property owner is saying: "From this day on, all my buying and selling of electricity for this particular property—house, factory, etc.—will *not* be subject to government regulation of price or service. Moreover, if I later wish to put this property back under regulation, I cannot." In other words, if you exercise the option, you're on your own—free in the open marketplace.

R: And people really took you up on this? It's hard to imagine anything but losses from using the option.

B: Well, at first not many did exercise their option. You're quite right to suggest skepticism and caution about using such an option. But nobody threw them away either! Unlike the typical sort of option traded on a commodity exchange, the market option became a perpetual right of the consumer. So why toss it out? Many people figured that it may someday, somehow, have a use.

If we wish to have the potential for an open market, we must allow risk taking.

R: The market options were a flop then?

B: Hardly. You're missing a point. Everybody holding these little pieces of paper made the electric utilities very nervous. What if people actually *did* use the market option? Utilities stood to lose customers because of competition, so they tried to buy unsigned options from consumers.

R: That's legal?

B: Absolutely. You can transfer your unsigned market option to anybody you wish, thereby giving up the right to exercise it. That right, however, is specific to the property for which the option was first assigned—if any other holder of the option signs it, then the property to which the option attaches is thereby exempted from regulation.

R: Okay—a lot of utilities went around and grabbed a lot of options so that public utility regulation would go on.

B: Yes. In some areas, they bought many market options, but not as many as you might think. Consumers sensed, quite rationally, that the hefty prices often offered for their options suggested that the options might be worth more than consumers first thought. So most played a waiting game. But where utilities did grab up and hold unsigned options, they were keeping the door open to a future departure from regulation.

R: Sounds like a case of the utility winning out over the consumer.

B: Consumers who sold their options to utilities did perhaps bear a large risk. But they were compensated for it and voluntarily accepted it. Perhaps some did err in judging the long-term cost of their actions. But Sasnakan legislators decided that if we wish to have the potential for an open market, we must also allow risk taking.

Another thing happens even when no one exercises these options but instead just holds them. It's a sign to everyone—consumers, current utilities, potential electricity producers, and utility commissions—that the road to an open market remains open and can be taken. This makes a lot of people nervous—including utility commissions!

R: You?

B: Well, frankly, one can get very comfortable in a job like this, even though I entered office on a pledge to move the industry out from under commission regulation. I'm human—I'm not immune to the likely benefits that come from running a large, well-budgeted commission, nor is anyone else. The point is, with unexercised options lying all over the place, our commission stood to lose its clientele, the consumers. Clearly, that's a great stimulant to the public utility commission to improve its performance. For the first time, I think, we really did serve a marketplace: if option-holders were dissatisfied with our performance, then we could lose them. I'm firmly convinced that if nothing else had happened—if we just kept the potential for market action open in this way—we would have accomplished a great deal.

R: Then something else did happen?

B: Yes, and rather quickly, too. Several large industrial firms in the state began

negotiating long-term contracts with their serving utilities—even *before* the law for market options was signed. Then, not long after the law became effective, all of the firms but one signed their options. They are now dealing on a contractual basis with electric-power suppliers. These contracts are fairly complex and quite specific to the user in question. Generally, the contracts run for 10 to 20 years and allow for renegotiation at some point before the contracts expire.

R: Don't these contracts still leave these firms dangling at the time of renegotiation?

B: Certainly there are risks to consider—for both sides. These firms aren't defenseless little creatures. Some can generate much of their own power, and most have a good bit of flexibility in the choice of energy. They can, for example, switch over to natural gas or oil. And if push comes to shove, some could find another supplier. In fact, one of the industrial firms, Plummer Industries, did just that. Instead of "signing up" with the old utility, it found that another power company, with a previously exclusive service territory 25 miles away, was interested in the Plummer account. The two firms negotiated a deal by which transmission lines were extended to Plummer. Part of the contract, of course, required exercising the market option.

R: You mean anybody can build transmission lines? Sounds like we're headed for wires jumbled all over the place. Isn't that ugly and costly?

B: Yes, anybody *can* build a transmission system but must now do so in an open marketplace. The government no longer uses its eminent-domain power to give transmission-line operators automatic rights of way. So building lines has become a bit more complex. Yet it's hardly impossible and sometimes profitable, especially when only a short link-up is needed to serve a large-volume customer or a densely packed group of users.

We really haven't seen a proliferation of wires. Yes, duplication of transmission and distribution lines connecting a power plant to a user is more costly than just one. But remember, we have other costs to consider if we legally prohibit such duplication. For example, the regulation that supposedly was protecting Plummer was not, in their eyes, doing such a good job. Plummer and its new supplier were willing to bear the costs of linking up as a means of reducing the costs associated with continuing with regulation. Realistically, that's a productive investment.

R: I see how large, industrial users might come out on top, but isn't the major concern of public utility regulation protecting the small guy? How in the world could a *household* ever fight back?

B: This concern is an important one and, frankly, was the argument used most often against deregulation. To be most effective, small users must combine into "user groups." And this is precisely what happened. Take a city where the local distribution system has many users per square mile. This compact group could be very powerful if users formed a cooperative. One purpose of a cooperative—or "user group"—is to bundle members' market options to negotiate with suppliers. Another purpose might be to acquire productive assets in the industry. In particular, the user group might buy the local distribution system from its current owner, the power company. From that stance, the group has much more flexibility in negotiating service contracts.

The market never stands still. It evolves as individuals experiment and learn and create new technologies.

R: But why would any utility sell its local distribution systems to user groups?

B: Some wouldn't. On the other hand, there were plenty of electric utilities in this state that were most eager to get rid of regulatory shackles. One way to do so was to negotiate a long-term contract for service to a user group, allowing the group to buy the local distribution system as a condition for the contract. Giving up its distribution systems was part of the power company's price of getting to an open market.

R: So a user group has bought the local distribution system and has signed a long-term contract for service with the group's original supplier. How is anybody—other than the utility—better off? Won't power companies eventually squeeze more out of consumers when the contract is renegotiated—or even before?

B: Both consumers and suppliers can be significantly better off. There's enough evidence from the economics profession about the inefficiencies of public utility-style regulation: unresponsiveness to changing supply and demand conditions, excess capital expenditures, and inefficient choices of fuels.

Politically, the regulatory system has become a game of redistribution. We have seen large and costly nuclear projects, like Marble Hill (Indiana), Zimmer (Ohio), and Shoreham (New York), discontinued or delayed. Who bears these "costs" has become a supercharged political issue, with everyone pointing fingers at the other guy. If regulators approve rate hikes and thus force consumers to absorb the costs, it's "rate shock." And if the utilities must absorb the costs themselves, shareholders of the utilities' stock are hit with "equity shock."

The risks of building more capacity became so great that no utility would step up to the task, fearing it could never attain a reasonable return on investment. The punch line to this story, of course, is that eventually *consumers* must either pay much higher rates for "emergency" capital investments or suffer inferior service—brownouts and such.

Public utility regulatory practices directly caused these results. Utility executives were lulled into thinking that their costs would always be covered by rates—that whatever they built, the regulatory system would guarantee them their cost plus a margin for profit. But that only works if users' demand for electricity does not fall significantly as the price rises and if everyone is willing to abide by the old "cost-plus" formulas.

R: There's a better way?

B: Most assuredly. The success of Sasnakan user groups in acquiring their distribution systems suggests how anxious the utilities were to get out from under regulation. For every area in which power companies could move into market contracting, they apparently anticipated tremendous savings. Let me give you an example. The Garden City user group obtained all of its local distribution sysem for *no* direct outlay by recontracting with the group's utility,

ConKan Power. One of ConKan's financial analysts figured that by contracting, instead of remaining under public utility regulation, ConKan could net a minimum of $400 per residential account in expected profits over the next 15 years. The Garden City group held only 100,000 market options, but the cumulative value of $40 million is pretty hefty. The bottom line is that the Garden City user group now owns the distribution system and contracts with ConKan for electricity.

R: How does the city government enter into this?

B: In some cases, as with Garden City, it didn't. Local officials were willing to let user groups form privately. They have no problem with the current user organization functioning as a private local distributor owned directly by the people it serves.

In other cities, however, local governments eagerly claimed the right to negotiate contracts for all consumers in the area. Alternatively, some selected a franchisee to negotiate service contracts and to operate the local distribution system, should one be purchased or built.

R: That seems a much easier way to use the market options.

B: Easier for the government officials, maybe. But this gets us back into the little games of political bargaining and abuse we see with local cable-TV franchising. Government officials often use the franchised operator for purposes other than to satisfy consumer demands. Nevertheless, such city-franchised systems have done many of the same things as the private residential user groups.

R: How do contracts between residential user groups and electricity suppliers work?

B: First, they invariably will be long-term commitments. Few electricity generating firms would risk adding capacity unless they had some assurance of sales over the life of a plant. Second, the contracts are subject to adjustments under changing circumstances. For example, if fuel prices were to accelerate rapidly, rates could rise correspondingly. Precisely how this works depends on the individual contract.

Most contracts have a built-in arbitration feature so that disagreements over the life of the contract can be quickly handled without recourse to the courts. Some of our critics have pointed to this as evidence that we have recreated regulation in the private sector. I do not disagree. The critical difference between such contractual "regulation" and public utility regulation is who's involved. Under commission regulation, the number of players actively seeking to influence each decision is large. We're playing a multiperson redistributional game. With private contracting, each player has a direct economic interest in outcomes and, consequently, has an incentive to use great care in his actions toward the other party.

The regulatory system has become a game of redistribution.

I guess, in a sense, we *have* created a private institution capable of replacing public utility regulation. We have finally come up with the "institutional inventiveness" that over 60 years ago economist Harold Gray predicted would depose public utility regulation. Gray had the right idea—he just underestimated how deeply entrenched various interest groups were becoming.

R: How about recontracting for residential user groups? Isn't that a big problem?

B: A problem, certainly. Remember that these user groups are large, potentially attractive markets. Like industrial firms, they will continue to search for suppliers with the best deals to offer. The current supplier has no assurance that he will not face a new rival that connects transmission lines into the group's distribution system. Clearly, for a generation firm looking to provide service to a new user group, that move is far more attractive when the firm does *not* have to duplicate an existing distribution system. That's precisely why user groups find ownership of the distribution system so useful.

There are other strategies, too. For example, one Sasnakan user group owns its own distribution system but had a difficult time renegotiating a supply contract. So the group planned to build an integrated electricity system jointly with a nearby city user group. Both would have ended up owning transmission and generating facilities, and the cost was expected to be reasonable.

R: Did they build it?

B: No—the contracting supplier suddenly became more pliant, and the local groups were able to renegotiate contracts.

R: Is that a very likely move for user groups—toward owning everything?

B: Maybe in some cases. It has been done in a few areas. The strategy, known as "backward integration," has been used in the electricity industry in the Rural Electrification Administration's system of user cooperatives. The difference here, however, is that the locals must make a go of it without the sizable subsidies that used to be available to the REA co-ops.

R: Have any developments under market-option deregulation surprised you?

B: Plenty. In fact, even when we began, it was clear that we could not foresee the way things would unfold. Given the opportunity, people are innovative. What makes it especially tough to be a forecaster is that this entrepreneurship acted to change institutional structure, not just modify behaviors. As the frame was rebuilt, completely new opportunities opened up that nobody foresaw. This is precisely what makes an open market in electricity so attractive. You can discuss models of "optimal regulation," but it means very little because the "market" benchmark, against which these models are compared, never stands still—it evolves as individuals experiment and learn, creating new technologies, new arrangements, and so on.

R: Let's be specific—what developments were unexpected?

B: Well, take the ownership of transmission systems as an example. Today, many lines are jointly owned by several power companies in the state; but before deregulation, each utility solely owned the transmission lines carrying electricity to the retail markets for which it had the exclusive franchise. Of course, the lines were interconnected, into what are called "pools," so that individual utilities could exchange electricity. Nevertheless, each utility had strong property rights in its transmission lines.

That ownership structure has gradually changed, and for good reason. Under market-option deregulation, each electricity firm's customers became the potential customers of many other firms. However, for a user group to switch to a new power company, the new firm would have to connect a transmission line to the group's distribution system. It could be done, but the threat of still other power companies entering markets increased the risk for any one firm to singly own a transmission system. When a transmission-line operator loses a major account, that line is used at a rate far below its capacity, and that's costly. Each firm realized that such risks could be reduced if all opened themselves to each other. Thus, through extensive joint ownership of transmission "grids," generating firms found they could more effectively deal with such risks.

R: Now you have collusion on a grand scale?

B: Just the opposite. With transmission lines owned jointly by these major users, each user gains from having an efficient transmission-pricing system, which allows each to send power anywhere within the grid. The great benefit of this, ultimately, is to the consumers: for them, it's easy to find a competitive threat to an existing supplier, since all the transmission-system owners may connect to customers anywhere in the grid. Perhaps this development, more than any other, has stimulated the consumer emigration from public utility regulation to an open market.

R: How would you characterize Sasnak's electricity industry today compared to 15 years ago? More or less concentrated? More or less efficient?

B: The concentration concern is baseless. You can now see that what sparked competition here was a change in the *structure* of ownership. We don't have more generating firms in the state than 10 years ago, but we surely have more *competition* for any given marketplace. How do you evaluate concentration of transmission lines—in local distribution systems? What has stimulated competition is not the number of separate entities acting in the marketplace, but the rearrangement of ownership. This has evolved from market-option deregulation.

Efficiency is in the eye of the decision-maker. Judging from the stampede toward the open-market door, I would say we have definitely improved matters. Service quality is excellent, prices have fallen—and all this with much higher use of generating capacity.

R: Let's talk for a moment about the little people out there who don't live in a city and can't expect to bargain for electricity through user groups. What of them?

B: Please remember that this state's public utility commission still operates and will continue to do so for any consumer who wishes to remain under regulation. Our view has always been that since regulation is allegedly protecting the consumer, it would be unfair to abruptly end it.

Utility executives were lulled into thinking that the regulatory system would guarantee them a profit.

Indeed, many of our remaining clients are small rural users, although many of them have now organized just as in the cities. Also, don't forget that for many years, REA cooperatives have owned much of the rural electricity-distribution systems.

Still, we have seen some remarkable developments in our rural areas. Clearly, these are costly places to bring electricity to. Thus, they will bear in an open market much higher prices than under the old style of regulation, through which rural users were effectively subsidized by nonrural users. But now with deregulation moving full-steam ahead, the cost-plus pricing of public utility regulation can no longer hold rural rates down. There simply is no one left to subsidize rural users. So regulated prices rise, because as more users choose the market arrangement, there are fewer users under the regulatory wing over which producers spread their costs. In response, many areas have started experimenting with other electricity technologies that were overlooked when electricity prices were subsidized. For example, wind-turbine power is extensively used in several remote counties. Such innovation in another big payoff.

R: There must be some political reaction to this forceful deregulation?

B: I would hardly categorize our program as forceful, if you mean that coercion was applied to any party. We simply allowed consumers free choice and removed many barriers to an open market. The rest was up to the individuals and firms.

But, of course, we have experienced brutal criticism from all sides and even attempts to reregulate the industry. *That* I had anticipated. Any consumer group that saw its electricity bills initially rising was actively opposed. Some still are. Some utilities were also against this plan. They contended it was financially risky and difficult to implement, because they had no direct control over the transformation process. Accounting problems were always a major concern—what's regulated, what's not?

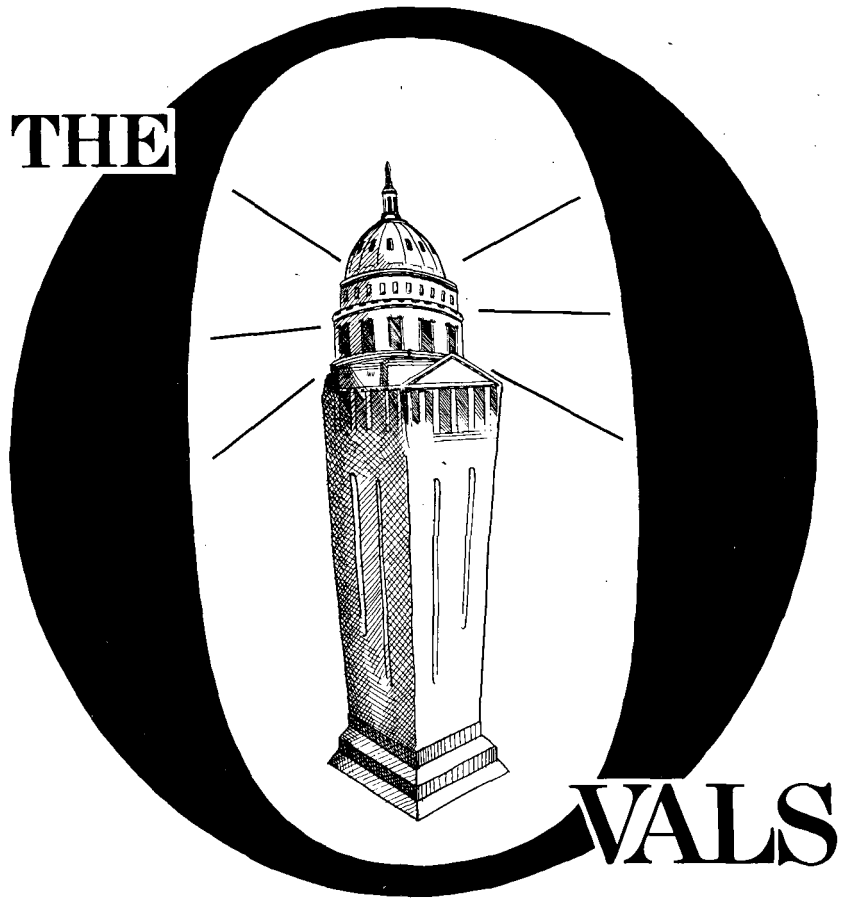
I think, gradually, we worked through most of these concerns. And many utilities were quite anxious to move in the market direction, balancing off the foot-draggers. It's difficult for managers who have spent their careers learning how to survive under the gimmickry of public utility regulation to face a competitive marketplace. Those firms whose managers most quickly developed market-oriented sensitivity have grown, while others have shrunk and some have gone into bankruptcy.

R: Commissioner, we have time for only one more question. After all is said and done, is all this competition really good for an infrastructure industry, one that provides a basic component of the country's productive capacity? Can we, as a nation, afford the risks?

B: Your question implies that under public utility regulation, "we" take no risks. Surely, recent history shows that tremendous uncertainties are the result of public utility regulation. Our state's experiment suggests that a more stable, flexible, and responsive electricity industry is emerging. And we've done it without forcing consumers out into the cold. Sasnak led the revolt. We're happy to see California taking the next step. Let's hope it catches on elsewhere, too. ◧

Douglas Houston is an assistant professor of business economics at the University of Kansas School of Business. He has written a monograph on electric-utility deregulation through "market options," forthcoming from the Cato Institute.

THE OVALS



Make way, Hollywood! It's time to hand out awards for the real entertainment of 1984 — the race for the Oval Office

By Thomas Hazlett

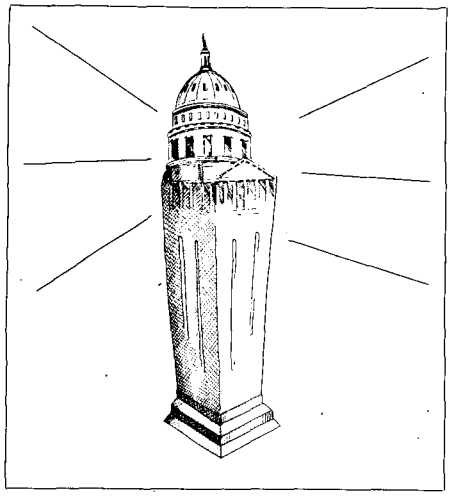
As the song birds tentatively begin their frolic and the wintry states commence their defrost, we are instantly treated to the greatest thrill of the renaissance called spring: the endless procession of awards ceremonies for performing artists.

It appears now to be inevitable that no gathering of two or more show-business types may occur during March, April, or May without at least a sizable minority of them toting away a Grammy, an Emmy, an Oscar, a Drama Circle Critics award, a Tony, a Golden Globe. In America, a land of boundless opportunity, there persists a belief that $45,000 a week, a 26-week work year, and more nonpecuniary returns than one can healthfully risk indulging in this age of untamed virals, is insufficient lucre to justify the investment made in attaining movie, television, record, or concert stardom.

This devotion to rewarding outstanding performance with adulation as well as certificates of deposit is religiously discharged virtually with the zeal with which the Ayatollah K. pursues his ban on coeducational mountain climbing. Curious it is, then, that this rigorous inspection-awards reflex has not yet been applied to that single greatest, most phenomenal entertainment spectacle of our epoch: the quadrennial Presidential Pantomime. (Yes, they do make *sounds*; but expert judges have yet to rule these meaningful words in a *communicative* sense.)

It is hardly a revelation to note that the most compelling paradigm from which to view last year's hugely entertaining campaign would be the dramatic traditions. Our candidates for high office now parade before us, celebrity-like, on the stage of politics. The press of an impending curtain call itself imposes a harsh discipline: in this burlesque, no actor will be granted the requisite acts necessary to establish a complex or unique persona. Hence, we witness the overwhelming desire to quickly slip into a tried-and-true character role. The candidates, more now than ever before, strive for dramatic caricature, purposely and laboriously mimicking some giant of legends past.

In 1984, the audience was treated to Walter Mondale doing a pretty good Hubert Humphrey, Gary Hart putting on a rather solid JFK, and the Rev. Jesse Jackson doing an inspired Martin Luther King, Jr. John Glenn, tragically opting to impersonate the American astronaut-



hero John Glenn, was quickly eliminated by the informed electorate as boring: Doing yourself *is* dull.

Yet Ronald Reagan was duly impressive in his rerun as The Gipper, and the Democrats are understandably furious about the formidable skills and experience the incumbent brought to the stage of battle. While blanking on all the issues and looking more and more like a kindly president emeritus, that old Gip charm easily smothered the opposition Thespians.

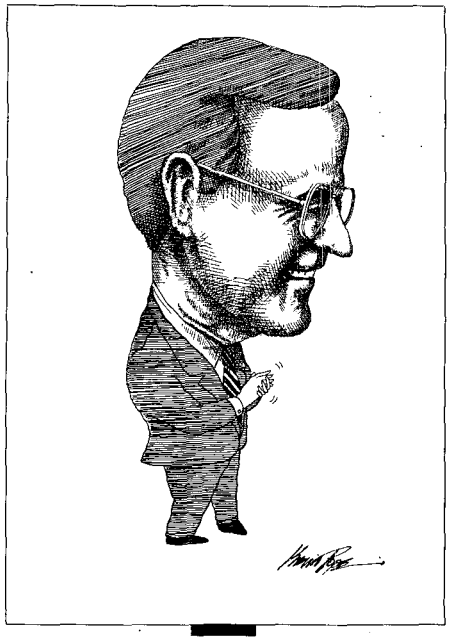
Now all that remains for this Tinseltown on the Potomac is to begin the march to the microphone and undertake the botching of acceptance speeches in a fashion as embarrassing and offensive as in any other great entertainment fraternity. Let the Ovals commence!

Best-Integrated Party Platform

Nineteen eighty-four can be remembered as the year in which political scientists discovered a method enabling them to record blood pressure readings in the above-zero range: they were able to whip themselves into hysteria over "premature" network television predictions announcing the election's outcome before the polls closed in Alaska. The argument that telling voters how others voted will induce them to abstain, and so should not be told, would most logically be extended to suggest that the networks not tell the people anything at all about the candidates, most of which also encourages people not to vote.

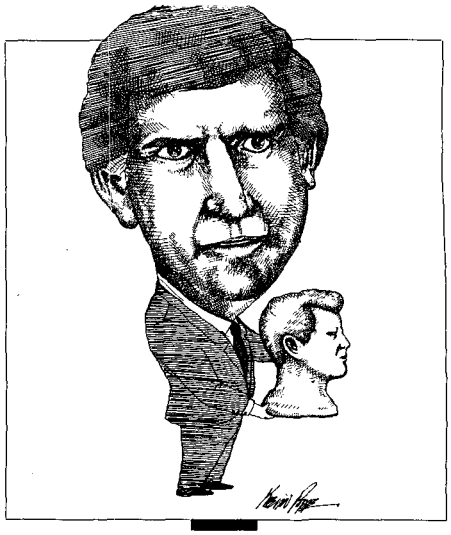
Most Fashion-Conscious

Gary Hart's meticulous Kennedy-wear image was much more than dacron-deep. His attention to fashion detail went so far as to define certain of our military options. When asked in one of the Democratic debates if he, as commander-in-chief, would fire on a lone Soviet airliner cruising over Nebraska, Hart said that he would send up a couple of interceptors to look inside the enemy ship and determine whether the plane was loaded with military hardware or Ukrainian tourists. Soviet air force strategists were shortly rumored to have put in an order for 2.2 million polyester leisure suits with nonmatching Hawaiian vacation shirts from a Taiwan clothing manufacturer and to have undertaken plans for a new "Dress for Duress" fall fashion line, pending Hart's ascension.



Most Embarrassing Hyperventilation by a Major Contender

George Bush, bless his soul, has in no way been deterred by such cynical recent works as John Dean's *Blind Ambition.* Goodness, no. One really expected the other-directed Mr. Bush, in the heat of debate, to blurt: "And you should've seen our President. Boy, I wish every American could've been there. He knew *right* where the Oval Office intercom switch was. He told the secretary, 'Send 'im in'—and she did. Wow! And then he laid it out, the whole thing. He knew Brezhnev was dead. He knew Andropov was history. He was a president in command! This is the first president *ever* to have to learn not one, not two, but *three* Russian names, first and last. And I'll just bet ol' Andy Gro'—that's what the president calls him since the meeting—I'll just bet AG went back to the Kremlin and said, 'This president really has his head together. We'd better take it his way, or the highway.' "



Most Artful Twist of Argumentation

In denouncing the propensity of Messrs. Reagan and Bush to run against "Carter-Mondale," Democratic partisans Mondale and Ferraro displayed an amazing agility. By anyone's count, 1984 was the 13th time the Democratic Party had run against true-father-of-the-New-Deal Herbert Hoover (not counting those instances in which Mr. Hoover was actually on the ballot). While one can hardly blame a 1984 Democrat for an unwillingness to be associated with a 1980 Democrat, it is apparent to all observers that the New Deal coalition is going to have to update its act. Perhaps in '88 they can run against Richard Nixon.

Most Vicious Denial Of an Embarrassing Fact by a Major Contender

Few should be surprised by the selection of Geraldine Ferraro in this tough-guy category. Remember Gerry—she's the one Walter Mondale put on the ticket to "give the appearance of being bold and decisive" (his words).

As the Republicans attempted to capitalize on their chance to score with Jewish voters (in perhaps the sole evidence that their campaign staff was functional prior to the election-night party), Ronald Reagan chastised the Democrats for failing to adopt an anti-Semitism resolution at their convention, as had the GOPers. To which Republican jibe Ms. Ferraro responded adamantly: "The President's remark was incorrect, indecent, and he should apologize for making it.... In an effort to assail us, he debased himself."

Perhaps a rugged campaign schedule prevented the hard-charging Dem from checking her mail, but the reliable *New Republic* had only recently commented in its mid-September issue: "Nowhere in the

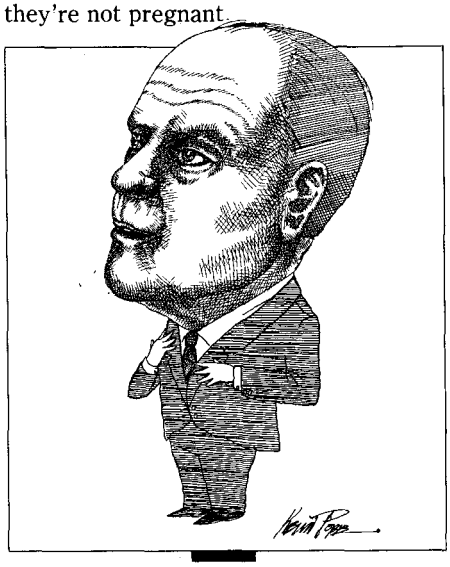
Democratic platform is there a plank denouncing bigotry and anti-Semitism, and the reason, of course, is that it would have been interpreted as a slap at Jesse Jackson and his friend, Louis Farrakhan. Accordingly, it might well have been adopted at the convention by a split decision, causing the party a huge public embarrassment. Walter Mondale and his aides were even afraid to have such a denunciation voted upon by the Democratic National Committee at its full post-convention meeting in San Francisco on July 20. Instead, it was passed by the committee in a quiet telephone poll weeks later. In contrast, the Republican platform and speeches by Mr. Reagan and Mr. Bush all contained specific condemnations of racial and religious bigotry."

Most Racist Comment

The man whom *New Republic* editor Charles Krauthammer dubbed "Jesse 'God Isn't Finished with Me Yet' Jackson" after the holy man's San Francisco barnstormer, fully lived up to his unfinished self-assessment in referring to Muhammad Ali's endorsement of the incumbent president as symptomatic of Mr. Ali's "brain damage." Apparently, the former heavyweight champion, by virtue of his birthright, has no cause to express an opinion when the "black viewpoint" has already been decided. Ali must have been quite severely ill indeed not to have realized such evidentiary facts of life.

Most Virulent Attack On the First Amendment

The GOP was sharp. Rather than waste time on side issues like taxes and the budget (Treasury-Secretary-at-the-time Donald Regan persistantly alleged that an election campaign is a poor time to discuss fiscal policy), they put on a constitutional-amendment blitz. Most well thought out were the amendments to ban abortion and to allow organized prayer in public schools. Beautiful strategy: if you get the former, no need to legislate the latter—junior high school scholars will be quaking out on the blacktop, *praying* they're not pregnant.

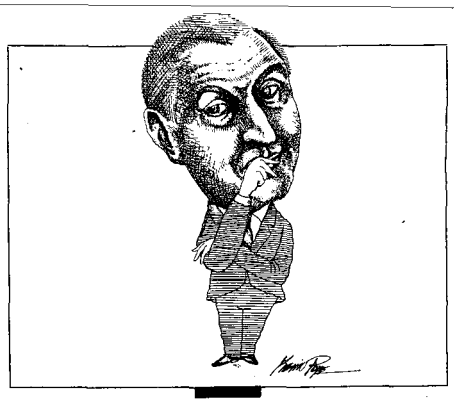


Most Obvious Need For an IOC Ruling

At the Republican convention, former presidential appointee Gerald Ford sailed through a spellbinding peroration, nearly indistinguishable from a good speech. This has so alarmed nonpartisan champions of fair play and Lifetime Members of Common Cause that there is a move afoot to inflict surprise urine and blood tests on selected podium thumpers in subsequent election years in an effort to reveal the illegal use of anabolic steroids or other power-enhancing drugs.

Cruelest Moment

Asking Ronald Reagan, in Debate I, clear out of the blue: What are your plans for government policy in the next four years? C'mon—there should be limits to how far a reporter can dig. Reagan appeared to undergo neuroshock trauma, and many Americans were just plain scared to death by the transgression. "We're going to go on doing what we have been doing," was the president's response under less-tense circumstances. And anyone who sticks his nose out and asks Reagan what it *is* they've been doing risks a little unnecessary roughness at the hands of the USC College Republicans.



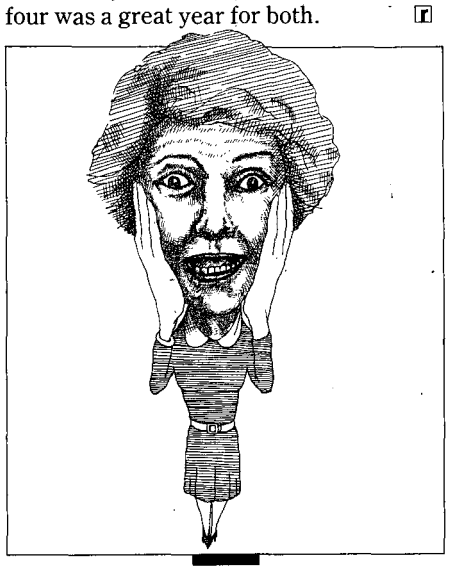
Best Effort by a Man Trying Hard Not to Smile

Walter Mondale, in Debate I, was highly efficient. He not only used a pancake base, but health experts have to wonder whether Mondale wolfed down a load of inhibition-fighting "beta blockers." But Mondale strategists still ended up exceptionally nervous during their chief's bold performance because of the former VP's inability to refrain from *smiling*. Each time Mondale would grin or chuckle, it projected the image of a zoo chimp mimicking a human. His advisors had drilled him in Advanced Nonsmiling Techniques, but the rush of the moment apparently overwhelmed his face muscles on more than one occasion.

Best Off-the-Cuff Confession

Nancy Reagan, sharp and to the point when she appeared in October at a non-campaign function to fight "substance addiction," declared: "We're not here for politics. We're here for the drugs."

And why not, Nancy? Nineteen eighty-four was a great year for both. ◻



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A group of brash young representatives calls itself the "Conservative Opportunity Society" and speaks glowingly of free enterprise. Is it genuine, or another case of political opportunism?

By Tom Miller

CONGRESS'S CONSERVATIVE YOUNG TURKS

In the spring of last year, Congressman Newt Gingrich made news twice. Considering his position in the world—an obscure Republican representative from Georgia with little seniority and less influence—that's remarkable.

The first time came last April after 10 senior House Democrats (including Majority Leader Jim Wright) wrote a letter to Nicaraguan leader Daniel Ortega "in a spirit of hopefulness and good will," urging him to hold genuine elections in his country. Rep. Stephen Solarz (D-N.Y.), who helped draft the letter, told the *New York Times* that it had been written to Ortega at the request of Alfonso Robelo, one of the leaders of rebel forces in Nicaragua.

But Newt Gingrich was not mollified. He in turn wrote a letter to his colleagues charging that the Democrats' initiative "clearly violates the constitutional separation of powers. It's at best unwise, and at worst illegal." It is hardly an everyday occurrence for a House member to suggest that other House members may have committed illegal acts, so Gingrich's charges were duly reported in the *New York Times* and elsewhere.

Gingrich made news again a month later on the House floor when he delivered a diatribe against liberal Democrats in Congress. He concluded with the claim that his targets' foreign-policy views were: "Give the benefit of every doubt to the Communists and doubt every benefit of your own nation." As he well knew, his

LANCASTER (PENNA.) NEW ERA PHOTO

Raising New Right consciousness: the Conservative Opportunity Society's Vin Weber (left), Bob Walker, Newt Gingrich, and Connie Mack. The COS is making its mark with flashy raids against the House establishment and imaginative use of mass media.

audience numbered far more than the handful of his fellow representatives and the visitors present in the House chambers. The speech was broadcast nationwide over C-SPAN television to as many as a million viewers.

One viewer who was physically present during Gingrich's speech was House Speaker Tip O'Neill. Infuriated, he descended from the speaker's podium to the members' rostrum to respond. "My personal opinion," he thundered, "is that you deliberately stood in that well before an empty House and challenged these people, and you challenged their Americanism, and it is the lowest thing that I have ever seen in my 32 years in the House." O'Neill was then ruled out of order by the presiding officer, the first time that has happened to a speaker in this century.

The national media's collective nose twitched at the scent of blood. Gingrich reaped the reward—a national audience, 30 seconds' of network news time, and the beginning of political celebrity.

In fact, this was not an isolated occurrence. It was only the most dramatic in a series of shows staged and produced by a well-organized group of "young Turk" Republicans in the House called the Conservative Opportunity Society (COS). Gingrich and his COS colleague Bob Walker (R-Penn.) have spent hours before C-SPAN cameras harassing the Democratic leadership, often when the House chambers are virtually empty and even their targets are not present. COS members have objected to routine requests to bypass House calendar procedures, in order to publicize their insistence that conservative legislation be scheduled for action. They staged a Capitol Hill prayer vigil while the House debated their "school prayer offensive." They organized "Grenada Day," a nationwide teach-in on college campuses to celebrate the first anniversary of the United States invasion of the Caribbean nation. All in all, it's a well-planned New Right version of consciousness raising and confrontation with the political establishment.

The seed of the COS was planted in 1978, when Newt Gingrich was first elected to the House from a district made up mainly of Atlanta's less-affluent suburbs. *The Almanac of American Politics* describes them as "uncomfortable middle class: people not quite secure in their pleasant status and fearful of the blacks and poor they left behind in Atlanta." Gingrich's politics are tailored not to displease his middle-class constituency. He himself says, "I'm not purely an ideological leader. I am a representative of Georgia's sixth district and I am a politician."

A 41-year-old former history professor, he has the driving ambition of

Newt Gingrich hopes to "build a long-term mass movement" and "save the West."

Bob Walker blasts House Democrats when they're not watching but TV cameras are.

Vin Weber is the glue that holds the COS's assertive personalities together.

someone determined, in his own words, to "build a long-term mass movement" and "save the West." But junior members of Congress on the minority side of the aisle traditionally have little opportunity to do either. Years ago, the late House Speaker Sam Rayburn regularly advised freshman representatives, "To get along, go along." Most newcomers to the House then and now have resigned themselves to following that advice. Gingrich, however, chose a different strategy.

He set out to shape a slick-sounding futuristic agenda that would attract Republican colleagues tired of playing a "silent minority" role. By early 1983, he had coined the term "Conservative Opportunity Society" and forged an alliance with a handful of other impatient young representatives including Vin Weber of Minnesota, Connie Mack of Florida, Dan Lungren of California, and Dan Coats of Indiana. They met weekly to hammer out long-term strategy and to share a common philosophy. As of January, there were 15 representatives in their ranks.

COS members occasionally protest that the organization is far more than the Georgia congressman, and they're right. For instance, Vin Weber, a 32-year-old representative from Minnesota and former newspaper publisher, is in some ways as important to the group as Gingrich. Currently the informal chair of the COS, Weber is the glue holding the collection of assertive personalities together, and he hosts their weekly strategy sessions in his office. Nevertheless, Gingrich is still the most prominent member of the COS, and it is he who has written the group's manifesto, a tract called *Window of Opportunity: A Blueprint for the Future.*

More important than the relative influence of the COS's individual members is their political vision. They insist that they have an innovative policy agenda for 1985 and beyond. Is it new-ideas beef or recycled Republican hash? How does it comport with values such as entrepreneurship, free enterprise, and individual freedom that they claim as their own? The influential New Right strategist Terry Dolan asserts that the COS crowd is "more libertarian than they have the nerve to admit." Is he correct?

A good starting point for finding out is *Window of Opportunity.* In it, Gingrich attacks what he and other conservatives consider the jugular of welfare-state liberalism—a zero-sum redistributionist perspective, resistance to change, cultural relativism, high taxation, overregulation. In a nation that gave a landslide to Ronald Reagan last year, those are inviting targets. But does Gingrich advocate remedies that would reduce the size or scope of government? Not when it comes to most economic issues. On the contrary, he welcomes forceful government intervention to structure the market with incentives for growth and technological development. For him, the array of incentives that an unimpeded market will provide on its own isn't sufficient.

"The opportunity society calls not for a laissez-faire society in which the economic world is a neutral jungle of purely random individual behavior, but for forceful government intervention on behalf of growth and opportunity," Gingrich declares in his book. "We must encourage the production of new wealth, new ideas, and new inventions."

One of Gingrich's passions is establishing government as a key player in promoting high-tech winners. "We need dozens of government-encouraged and subsidized efforts to build the information systems of the future," he writes. At the same time, he has no interest in government resuscitation of "rust belt" losers (of which there are few in Georgia's sixth congressional district).

Conservative Republicans ordinarily pay lip service, at least, to laissez-faire economics. Gingrich does not. "There has never been to the best of my knowledge in the United States any laissez-faire policy," Gingrich declared recently in an interview, as he tossed out allusions to the Homestead Act and the Transcontinental Railroad. "I think [the government] building a manned space station is a clear definition of the future and where we want to go. And I think that a healthy intelligent society doesn't just keep Panama Canals—it builds them."

Gingrich's sweet tooth is for space development. A cofounder of the House Space Caucus who has the Atlanta Airport (the world's second-largest commercial airport) in his district, Gingrich urges government funding for space analagous to government aid to civil aviation in the past. "Because American politicians had the vision in the 1920s and 1930s to subsidize and nurture an infant industry," he says, "we came to lead the world in aviation."

Is there anything that would keep Gingrich's grand vision from becoming a right-wing version of the familiar industrial policy of liberals? Sure—"restricting government to setting up very large systems," he replies unconvincingly, as he dances off to the anti-bureaucracy tunes of decentralized initiatives and the marketplace.

Gingrich's generosity with other people's pocketbooks would extend to some among the earthbound, and it would not be limited to his stylized industrial policy. Big auto companies are evidently among Gingrich's elect. He abandoned

Bobbi Fiedler is the only COS member to support the right to have an abortion.

Connie Mack wants to look at government subsidies. Will he push for real cuts?

Dan Lungren helped pave the way for jailing people not convicted of any crime.

free trade in 1982 to vote for domestic-content legislation requiring US-made parts in auto manufacturing (he explains his shift from earlier political principles by pointing to a pair of auto factories in his district). Last year, he voted for federal subsidies for the Rural Electrification Administration, a huge boondoggle for scores of politically powerful utility cooperatives, higher funding for the Superfund program, which is charged with cleaning up toxic wastes but has so far done virtually nothing, and higher funding for the Corporation for Public Broadcasting, an elegant pork barrel providing entertainment for the middle and upper classes. For all this, however, it is subsidies for high-tech industries and space development that really seem to capture the Georgia congressman's imagination.

Not all of Gingrich's colleagues in the COS share his enthusiasm in full measure. For example, Bob Walker of Pennsylvania, a House Science and Technology Committee member, supports privatization of the space-shuttle system, which he fears could otherwise become "the high-tech equivalent of a space Amtrak." He observes, "I had to educate Newt not to endorse everything NASA wants. What government ought to do is provide the climate in which investment can take place in space, but basically not try to be the generator of space commercial activity." He continues, "The main pitfall would be if we went toward some kind of a quasi-space industrial policy."

And Dan Lungren of California, a COS member on the Joint Economic Committee, has in mind subsidies to business that are considerably more modest than Gingrich's. Specifically, Lungren seems a bit concerned that the government dole would create a permanent welfare class among American industries, while he would prefer that subsidies to business be only temporary. "Maybe I look at it a little differently than Newt does," he says. "Government sure has to take the first step. And in some ways it may provide a subsidy to a particular industry or business, but the intent is to get it moving off the government plate and get it over there on the commercial plate as soon as possible, so more and more commercial actors can get involved."

Gingrich does not hesitate to push subsidy programs for his favorite industries, but he has spent much of his political career lambasting the more traditional welfare state. Even that lambasting, however, seems to be more bark than bite. Gingrich is clearly loathe to offend anyone by advocating specific reductions in welfare programs, especially in perks for the middle class. "Conservative administrations have consistently focused on undoing liberal mistakes rather than on creating conservative solutions," he said in *Window of Opportunity*. "Running a cheap welfare state cannot be our goal."

While other reformers—both liberal and conservative—are exploring changes such as means tests (that is, limiting benefits to those who are in greatest need) that would reduce the cost of social spending, Gingrich is content to sketch a vision of more-efficient delivery systems for government-funded services. By invoking the benefits of decentralization without filling in the politically tough details, he promises in effect to "get it for you wholesale." Along the way, he would toss ample federal funding bouquets—a $500 annual bonus to people who don't utilize Medicare during a given year, tax credits for family-provided home health care, and a $100-million reward to inventors of self-operated kidney-dialysis systems. In fact, many of Gingrich's domestic-policy initiatives come down to handing out money for desirable patterns of behavior. "Whenever possible, we should reward people for making changes in their lives that will speed up the transformation to a new era," he wrote. It's a vision of the polity as Skinner box.

What of substance, then, underlies Gingrich's stirring economic rhetoric? Chiefly, lavish new bundles of subsidies and other government goodies for high-tech industries, most of which are already quite capable of prospering on their own, plus desultory tinkering with the welfare state. After all, "you can trim some programs and you can kill some programs, but the first duty of a political coalition is to sustain its majority," the revolutionary Gingrich has candidly admitted.

It comes as some relief that COS members seem unwilling to finance the grand designs of Representative Gingrich or anyone else by raising taxes. In fact, Mark Siljander of Michigan has, to his credit, staked out ground of his own on the tax-simplification issue with the support of his colleagues in the COS. Last year, he introduced a bill that "out-Kemps" the Kemp-Kasten FAST tax proposal with its 25 percent flat rate. Siljander proposed a 10 percent flat tax, a doubling of the current personal exemption, and retention of deductions for charity, Individual Retirement Accounts (IRAs), interest, and local taxes.

There are other constructive ideas emanating from the COS. For example, the group's chair, Vin Weber, is quite sympathetic to IRAs. "We ought to expand dramatically the concept of IRAs," he argues. "More money ought to be put

into them and [we should] allow them to be used for purposes like education, health, and home ownership. And change the name to Individual Responsibility Accounts, because that's what they're trying to teach people."

The COS favors a temporary freeze on discretionary nondefense spending, but at least one member—Connie Mack—seems to want more fundamental change than that. "I would look at the six subsidy sisters—big business, small business, agriculture, transportation, credit programs, and local community grants," he says. (At the same time, he concedes that the COS has yet to formulate plans for cutting federal spending on a programmatic basis. "Newt was a little bit concerned that the administration's 'pain and abuse' budget would alienate every interest group in the country, and create real havoc for the basic Republican position in 1986," he explained.)

The COS's positions on foreign and defense policy are, for the most part, the conventional views of conservative Republicans. "We must establish the Republican Party as America's new internationalist party," Weber says. "We have to plant democratic capitalism in the Third World." To do that, the COS thinks that conservatives should abandon any lingering skittishness about foreign aid and support a restructuring of institutions like the World Bank and the International Monetary Fund. Such a foreign policy can lead to US involvement overseas, but the COS does not flinch. The last Congress voted on an amendment to prohibit the spending of taxpayers' money on CIA covert military operations in Nicaragua. The ban passed the House—but every one of the COS members voted against it.

COS members have irked their elders in the Republican leadership with one interesting deviation from the Reagan administration's foreign policy. Last December, Vin Weber and Bob Walker drafted a letter to the South African ambassador in Washington blasting his nation's apartheid policy. Eventually, 35 Republican representatives (including most COS members) signed the letter, which warned of international sanctions and curtailed American investment in South Africa unless there is "an immediate end to the violence in South Africa accompanied by a demonstrated sense of urging about ending apartheid."

The letter was, as the *Wall Street Journal* put it, "a sharp departure from Republican orthodoxy." So it's little wonder that the response of orthodox Republicans was not delight. Rep. Gerald Solomon (R-N.Y.), the ranking Republican on the House African Affairs Subcommittee and the administration's point man in the House on African policy, fumed to the *Journal*, "It was completely half-baked—counterproductive to what the administration is trying to accomplish." But Weber argues that taking a consistent position for political and economic freedom, wherever it is threatened, will enhance the credibility of conservatives when they criticize Marxist dictatorships.

On military policy, most COS members like to think of themselves as "cheap hawks" who are tougher on the Pentagon than traditional conservatives. "Our people, almost to a man, are critical of cost overruns, bureaucracy, inefficiency, and the unwillingness of the Pentagon to reform," Weber boasts.

Gingrich has contended that security problems stem from a lack of strategy, not dollars. "You could certainly get more defense for less money if you reformed the Pentagon," he says. But like some other members of the House Military Reform Caucus, his proposals focus far less on specific budget reductions than on management reforms. He trumpets the virtues of expanded reliance on the National Guard, more multiyear procurement, and greater purchasing of off-the-shelf hardware. At the same time, his *Window of Opportunity* and public statements carefully avoid more-controversial positions such as canceling useless weapon systems (his press secretary could not name a single weapon or weapon system that Gingrich would like to scrap), scaling back lavish military pensions, and ending America's military umbrella over the NATO nations and Japan, all of which can and could be financing their own defense.

Among Gingrich and his COS colleagues, there are precious few signs of commitment to civil liberties of any kind. In fact, COS members have worked assiduously, often in alliance with the Moral Majority and other New Right groups, to erode individual freedom in several areas. Last year, for example, COS member Dan Lungren sponsored a motion that paved the way for the administration's "comprehensive crime control" package. It subsequently passed. Among other things, it provides for preventive detention in federal cases (in other words, locking up a person who hasn't been convicted of any crime, for as long as 10 days) if a judge happens to consider the person to be a "danger to the community." The judge isn't required to set bail for a defendant, even if the defendant is expected to show up at the trial.

The crime control package also substantially raises the penalties for people who are caught growing or selling marijuana. Someone who raises or sells less than 50 kilograms (about 100 pounds) of marijuana is now liable for a maximum penalty of five years in jail and a $50,000 fine. For over 50 kilograms, the penalty is up to 15 years in jail and $125,000 fine—the heaviest penalty in federal drug law. And, of course, a person raising marijuana can now be incarcerated even before he's convicted if the judge thinks he's a "danger to the community."

There were 14 members of the COS who voted on Lungren's motion when it came to a floor vote. Every one of those votes was in favor of the measure.

With the notable exception of Bobbi Fiedler of California, COS members have generally been hostile to government permitting abortion under any circumstances. Last year, COS member Siljander devised a new anti-choice strategy—an amendment expanding the definition of "person" under the Age Discrimination Act to include "unborn children from the moment of conception." Again, 14 of the 15 COS members cast a vote on the House floor. All except Fiedler supported Siljander's amendment.

The Conservative Opportunity Society sees itself as a coalition-builder, and the grand coalition it has in mind is of right-wing populists, traditional conservatives, and libertarians. But does such a coalition make ideological sense? Eddie Mahe, the COS's top political strategist, suggests that such a question is beside the point. A wily veteran of a score of political battles and the manager of John Connally's abortive presidential campaign in 1980, he has been a close adviser to Gingrich for over a decade. He puts his money on a large role for the COS within the Republican Party and says, "A reasonably astute Republican Party can create an umbrella of rhetoric which provides a party that everybody then can identify with. Most voters don't get to the substantive level."

Perhaps Mahe is correct. It may well be that the COS's flashy guerrilla raids against the congressional establishment, their imaginative use of the mass media, and their rhetoric of opportunity and a high-tech society will spawn the coalition that Mahe envisions. If so, it will be because the COS has successfully masqueraded its orthodox views on a number of issues. ◻

Tom Miller is a Washington-based free-lance writer whose articles have been published in Reader's Digest, *the* Wall Street Journal, *and other publications.*

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R45TSR

By Edward Hudgins

Who Needs Government? Not Small Businesses

Small businesses are the backbone of the American economy. Businesses with fewer than 20 workers provide two-thirds of all net new jobs and generate a substantial portion of the gross national product. For this reason, strong concern has been raised regarding an Office of Management and Budget proposal to abolish the Small Business Administration (SBA), an independent government agency intended to assist small firms.

Believing that the SBA effectively promotes small business, many argue that it should not be abolished. The record shows, however, that the SBA has been relatively ineffective in generating new business. Even worse, it misdirects resources, thus denying them to those entrepreneurs who may have been able to make better use of them.

Supporters of the SBA insist that the bureau's primary function—providing loan guarantees and direct loans—is essential to the small-business sector, especially start-up companies in need of capital. But in fiscal year 1984, the SBA's $3.65 billion in loan commitments went to less than two-tenths of one percent of the nation's small businesses—a mere 21,461 out of 14 million.

Moreover, in the first part of 1983, for example, nearly 80 percent of SBA beneficiaries were receiving assistance for the second time. This indicates that new businesses are not the primary beneficiary of SBA programs.

The agency also cannot claim credit for the soaring rate of US business starts in recent years: less than one percent of US businesses have ever received SBA loan assistance.

In addition, the default rate on SBA loans has been high. In 1984, for instance, the federal government had to pay off 18 percent of SBA-guaranteed loans, at a cost of $544 million in taxpayers' dollars. In 1983, the default figure was 26.8 percent, and in 1982 it was 39.9 percent. The SBA has attempted to tighten loan qualifications to reduce such losses—but this seems to defeat the very purpose of the SBA. If SBA's loan record is so bad, then it should retire from the loan business and leave this function to banks and other institutions.

KEVIN POPE

There can be little justification for gambling the public's tax money on a program that picks such a high percentage of losers.

But if loan qualifications are so tightened that only "safe" businesses can obtain loans, then such businesses, with a little persistence, surely could obtain loans from other sources. Indeed, under the current system, there is an incentive for bankers to turn down promising small-business loan requests. The reason: such businesses have a good chance of securing an SBA loan guarantee, which can then be used to protect the bank from any risk. So the business gets its money and the bank receives interest from a risk-free loan.

Even if the SBA improved its lending practices, it would not be the best vehicle to help America's entrepreneurs. Institutional loans—whether guaranteed by the SBA or strictly from banks and other lending institutions—are simply not the primary source of capital for small businesses.

A survey by the National Federation of Independent Business (NFIB) reveals that of the 3 percent of existing small businesses that have received government aid, less than half relied on it as the primary source of their capital. For nearly 60 percent of America's small businesses, start-up funds come from the savings of the owners or those of their friends and family. This suggests that the best way to help new firms is to (1) encourage risk taking and (2) enable Americans to retain and save a greater portion of their earnings. Measures to achieve this include reducing capital-gains taxes, cutting personal income taxes, and shielding savings from tax. By making private capital more available, these measures would do far more to help new firms than the SBA now does.

Other SBA activities should be handled by other means or agencies. Disaster relief for homeowners, for instance, is hardly appropriate for an agency established to help small businesses. The agency's disaster-relief program for farmers duplicates Department of Agriculture programs. And SBA-funded training programs duplicate the services offered by business consultants and universities.

Even among its supposed beneficiaries, the SBA wins less than enthusiastic support. A recent NFIB survey found that two-thirds of small businesses have had no experience at all with the SBA, and half of the small firms surveyed oppose direct government loans. Only 10 percent said they would seek market or management help first from the SBA.

The best way to promote small businesses is to reduce government regulation of these firms and to spur personal savings and investment. This is how new entrepreneurs will obtain the capital they need; continuing the costly, ineffective existence of the SBA is not.

Edward Hudgins is an economist at the Heritage Foundation in Washington, D.C.

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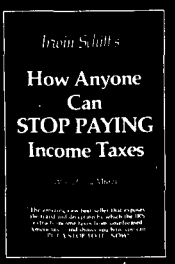

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By Timothy Condon

Keeping What's Yours

You know, April 15 could just as well be "tax freedom day." But as it is, that's the day our federal (and usually our state) tax returns are due. On the other hand, millions of people have already decided to make the day their "freedom day," by simply joining the subterranean economy and working totally "off the books."

Joining the underground, all-cash economy is quite understandable when the government's tax load on all of us can only be described as obscene. But as a lawyer and tax specialist who benefits from the system as it is, I certainly do not urge anyone to join the countereconomy. And I certainly urge everyone to obey the law and the Constitution as it is written. Therefore, with the income-tax deadline less than a month away, here are a few hints that may save you some money.

First of all, you don't *really* have to file your tax return by April 15. If you can't get it all together by that day of infamy, submit a Form 4868 (automatic extension of time to file your return). If you're going to owe any money above what the government has already taken through withholding (or your estimated payments, if you're self-employed), then you've got to send that in with the Form 4868. The form allows only an extension to *file* your return, *not* to pay your tax.

When you do sit down to hassle out your taxes, it's a good idea to spread out all those records and receipts so you can get at 'em. (An even better idea is to have your tax expert figure it all out; but just be sure he or she is tough and thorough—and on your side rather than the IRS's.) Then use the Form 1040 to find out what records you need, line by line. The very best and most crucial records are your canceled checks or check registers for the year. (For most of us, if we keep a running check register, these take the place of "accounting books." Of course, if you have books for your business, then you use them.)

Don't use a Form EZ or Form 1040A, as the IRS urges everyone—those forms just don't have the lines that can save you money. They're for "easy hits" for the tax authorities.

Besides the Form 1040, you'll need the Schedule D if you sold any capital-gains property during the year (stocks, bonds, land, buildings, and such). If you're self-employed, you'll be filling out the Schedule C and accompanying Schedule SE, which is the Social Security rip-off (now up to 11.3 percent on your net self-employed income, a tremendously damaging tax that acts as a surcharge on everyone's income; for employees and employers, the rip-off is even worse, now up to 13.7 percent).

Most of us don't want to break the law, so the next best thing is this: educate yourself about the taxes you're forced to pay. Be aware of your financial moves and options.

If both you and your spouse work, you'll definitely want to use the Schedule W, which is a small deduction meant to cover up the "marriage penalty," the extra taxes you pay for being married when you both work. Still, a bone tossed to the dogs (us) is better than nothing at all.

Then there's everyone's favorite, the Schedule A. Jump into it and take every deduction you can find relating to medical and dental expenses; local and state taxes; interest paid; charitable contributions; casualty and theft losses; and miscellaneous tax- and business-related deductions. It's a good idea to get one of the myriad income-tax manuals (*Lasser's, Sylvia Porter's Income Tax Guide, H & R Block's Guide*, etc.), which will point out the areas people often miss and give valuable hints in filling out the forms.

Remember to try income averaging (Schedule G) if your income has been jumping pretty steeply over the last several years. You might want to consider filing separately from your spouse, but that generally only works if one of you has excessive medical deductions and a lower income. Try it anyway if you think it might work.

Make sure you've got $2,000 stashed in an individual retirement account (IRA). If both you and your spouse work, you can put up to $4,000 into two IRAs—if you have a spouse who doesn't work outside the home, you can get a "spousal IRA," which allows total contributions of $2,250—all of which amount to "free deductions" (since you still own the money). If you're just setting up IRAs, get it done now, as April 15 is the deadline for getting your money into them this year, whether or not you get an extension on actually filing.

For this current year, if you have business-related deductions for mileage, automobiles, computers, or other business equipment, you'd better familiarize yourselves right now with the new recordkeeping requirements, which are extensive and complete (see my last column, in the February issue). You can't do anything about 1984 (and don't have to, since the records rules aren't in effect for that year), but 1985 is a different story.

Let's face it, taxes in the United States have been out of control for some time now. Our economy is staggering under the immense disincentives and distortions caused by what is in effect a pork-barrel tax system.

Any possible solutions in sight? Well, not while people like House Speaker Tip O'Neill, Senate majority leader Robert Dole, and other enemies of the taxpayer still hold national office (not that the rest of them aren't as bad—they're just less visible). Not a political solution, at least. *Unless*, of course, you regard the subterranean economy as a political refuge and joining it as a political act. But most of us don't want to break the law, so the next best thing is this: educate yourself about the taxes you're forced to pay. As you go through life, be aware of your financial moves and options and how you can keep the money that's yours.

Tim Condon is an attorney and tax specialist who practices in Florida.

By Patrick Cox

The Wright Brothers' Latest Successors

Dick Rutan can't remember a time when he was not obsessed with flying. His younger brother Burt followed in his footsteps.

The boys' first toys were simple model airplanes, but they soon graduated to radio-controlled model aircraft, buying, says Dick, "whatever we could afford." Both started flying as soon as they were legal, at age 16. Later Dick joined the Air Force to become a pilot, and Burt went to California Polytechnic State University to study aircraft design, establishing a division of labor that still exists. Says Dick Rutan, "Burt builds them and I fly them."

Dick retired from the Air Force in 1979 as a lieutenant colonel. He moved to Mojave, California, to work as a test pilot for his brother, who had established himself as a leader in innovative aircraft design. As president of Scaled Composites, Inc., Burt Rutan designs unusual lightweight aircraft.

Burt Rutan's planes all have several things in common. They are made from light and extraordinarily strong carbon-fiber composites. They also have a canard, which resembles a full-fledged forward wing attached to the nose of the craft and effectively prevents a major cause of fatal aircraft accidents, stalling.

The Rutan brothers produce and test planes that look like they have flown out of science-fiction films. Rutan Aircraft, another company run by Burt Rutan, is the leading producer of build-it-yourself small planes that sneak under Federal Aviation Administration (FAA) regulations concerning aircraft design. *Aviation Consumer* magazine called Burt the "most innovative and successful lightplane designer in the country." His designs have won awards too numerous to list. Similarly, Dick Rutan has set numerous speed and distance records flying his brother's designs. A *Professional Pilot* magazine survey of aviation professionals voted both brothers among the eight most important contributors to aviation during 1984.

Most of the records are, frankly, not the sort that make network news. But if all things go as planned, that should change in September. According to Dick, the ultimate aviation record would be to circumnavigate the globe without refueling. The brothers are trying to meet that challenge.

Dick Rutan

Burt Rutan

Burt Rutan designed the Voyager to fly around the world in a little over 11 days. To pilot the plane, Dick will team up with Jeana Yeager, who holds her own share of records.

There are no prizes for the nonstop flight. The urge to perform the feat is the only motivating force for Dick Rutan and Jeana Yeager, who have spent themselves into poverty trying to break what Dick calls "the only real record left." Burt has not invested further than the design for the craft, which he admits has nothing about it that he could patent. He says that personal gain will not be tangible, but an engineer, like an artist, gets satisfaction "in achieving something that is a personal challenge, much like those who ran the first four-minute mile."

Individual contributors to the nonprofit company Voyager Aircraft have helped to fund the project, and Dick Rutan is always looking for people who would like their names in the official logbook to be dedicated to the Smithsonian. If successful, the Voyager will do more than go down in the record books. It will attract attention to an alternative design philosophy that uses lightweight composite structural components and the canard. The Voyager has twice the range of the B52 and is bigger than a Boeing 747, though it weighs only a fraction of either of the other crafts.

After seeing the Rutan designs, one has to wonder why aviation in general has not adopted the safer, more efficient designs. Both Rutans have thoughts on that subject. "The FAA stymies people's ability to live their lives and be creative," Dick says. "The industry needs to be deregulated, and antiquated regulations should be shelved. For instance, regulations require stall-spin demonstrations, though modern planes are physically incapable of spinning." Dick also says that regulations are written with aluminum aircraft in mind, encouraging manufacturers to work with the inferior material. "Composite materials will bring aviation back to the common people," he says. "They are cheaper and so much stronger, they can be built not to fail."

Burt says, "The big problem has been with lawyers and product liability laws that make it difficult for manufacturers to apply new technology." Burt explains that manufacturers of general-aviation aircraft are bound to the status quo. "If they come up with an improvement," he says, "they can be sued for not making improvements on older aircraft." This is complicated further by what he calls "an inability at the working level for FAA employees to make a decision"—so "proving that an aircraft meets regulations is drawn out, because people pass the buck and are afraid to make a decision."

Dick and Burt Rutan are expected by many who are familiar with their work to break the last of the obvious personal-flight records. The Rutan brothers must share some of the same drive and spirit that inspired the Wright brothers in making their historic flight at Kitty Hawk, North Carolina. The analogies cannot be avoided. Perhaps the most significant change will not be technological, but the fact that this time it will be two brothers—*and* a woman.

Patrick Cox is a free-lance writer.

life & liberty

Whatever You Do, Don't Tell the Pigeons!

By Stephen G. Barone

My friend Jill informed me the other day that she's going to have a baby, and I am worried. This is not good news—not at all. You see, Jill has a tendency to go about anything she decides with a maniacal fervor, the kind usually associated with crazed South American dictators. Now she and her husband are very busy. Neither is seen anymore without some book in hand, written by one or another expert on this or that aspect of child-rearing. Their evenings are full. Mondays, there's the Lamaze group. And that's good. Tuesdays, it's the Le Leche League. Let me go on record, here and now, as having nothing against mother's milk. Wednesdays, they attend a seminar on "natural nutrition" for toddlers. Hey, if it's *natural*, what could be bad? Right? Thursdays, however, they are enrolled in a course, taught by a psychologist, entitled "Childhood Behavioral Management." I wish they would find something else to do on Thursdays. *Anything.*

It's not that I have anything against psychologists. In fact, I am one of their ilk. I remain in relatively good standing, and I deal with kids for the bulk of my practice. So what is my problem? I'll tell you.

I have trouble with folks who equate child rearing with managing kids' behavior. Talk to Jill and her hubby for any length of time. It doesn't take long to figure out that their new hero, the psychologist, is a behaviorist. And you know what that means....

People who are prone to describing kids' behavior solely in terms of stimulus and response contingencies will often admit, although begrudgingly, that the little tykes seem to learn tasks much more quickly if they are told exactly what it is that is expected of them. For instance, trying to "shape" a child's behavior—as they would say—to pick up his toys goes alarmingly faster if one precedes the shaping procedures with the scientific phrase, "Hey, if you don't pick up your toys, I'm gonna break your head!" It's alarming, because to admit such a fact of life forces the behaviorist to talk about a construct he finds abhorrent—cognition.

Now one might ask why cognition would bother behaviorists. The answer, of course, is that no other animal seems to have it. It's peculiar to humans. And once introduced into the theoretical mus-

ings of the behaviorist, that which he advertises as a comprehensive psychology of children begins to take on a peculiar odor, not unlike over-age carp.

Let us recall B. F. Skinner, himself one of the greatest behaviorists. As you might remember, he began his career as an animal trainer extraordinaire for the US Army. Dr. Skinner trained pigeons to guide bombs to their morbid destinations. Each pigeon was trained so that it responded to a picture of an enemy target by pecking some electrical buttons. The buttons manipulated a crosssight that, when centered on the target, gave the pigeon some access to food. Thus the hapless bird was trained so that when it was placed in the nose of a real bomb with the buttons attached to the steering system, and the *real* target was conveniently observable for the pigeon through a little window...well, you can guess the rest.

This returns us to that oddity of the behaviorist, which is the reluctance to admit cognition as a theoretical construct. Would it be safe to conjecture that one of the reasons Dr. Skinner chose pigeons rather than Army PFCs for the task is that the former lacked this quality of cognition whereas the latter clearly did not? Putting the humane element aside for a while, why didn't he train PFCs for the task if there is no fundamental difference between animal and human behavior? They would have been much more adaptable to the task.

Were PFCs perceived as less suitable subjects because, once aware of the goals of the training, they might have become—as they say in the business—"more resistant to task acquisition"? Well, then, what about more trials? If learning is the inevitable result of enough stimulus and response pairings, why couldn't Dr. Skinner have simply kept on training the PFCs until they did it—were compelled to do it—with no forethought? No? How about if they were simply kept in ignorance of the task goals?

You know, that might have worked. But to rely on something called ignorance necessarily implies the existence of its opposite, cognizance. Notice, this theoretical bugaboo doesn't crop up when we confine the behaviorist's theories to rats and pigeons—only when we try to extend those theories to humans. You would not have seen Dr. Skinner skulking around the fort and whispering, "Shhhh! Don't tell the pigeons!"

This kind of nonsense—ignoring children's cognition—makes me angry at child psychologists who pass it along to the parents and would-be parents of the universe. It's one thing to print this kind of stuff in the academic journals. Hardly anyone reads it and those who do seldom take it very seriously, at least not with their own kids. Perhaps it's okay even to peddle these ideas around college campuses. Such hypotheses, proudly void of prima facie logic and defiant of the bulk of evidence, seem at home in student unions among steaming hot mugs of coffee, tweedy sport jackets, and adoring coeds. But to offer them as legitimate contenders in the arena of ideas about why children do the things they do? To tell young people that the way one deals with a three-year-old who defecates in

(Continued on p. 62)

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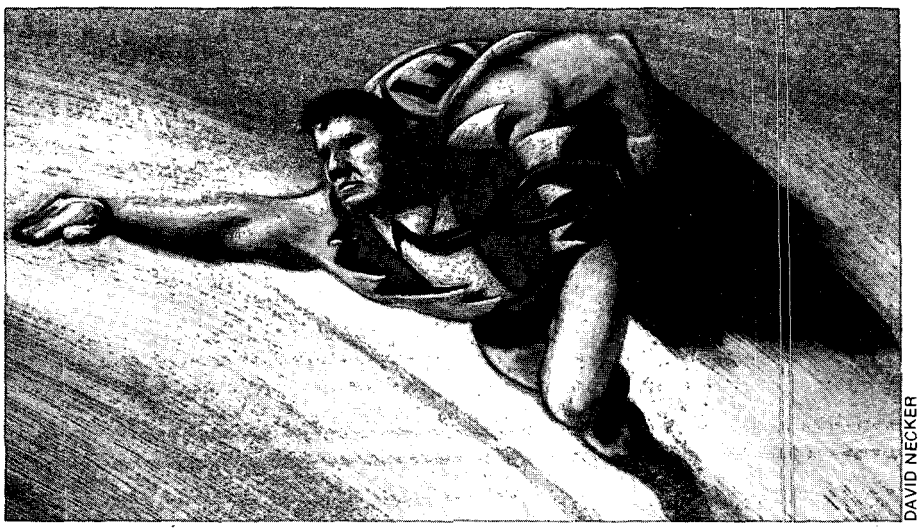
How Heroic Are Entrepreneurs?

By Israel Kirzner

The Spirit of Enterprise, by George Gilder
New York: Simon & Schuster, 274 pp., $17.95

George Gilder, the author of *Wealth and Poverty* in 1981, has once again written a book that economists—even, or perhaps especially, "Austrian" economists—will find both frustrating and appealing. The volume consists of about a half-dozen chapters providing exciting



DAVID NECKER

and inspiring accounts of intrepid entrepreneurial genius and success, in fields of endeavor ranging from frozen fried potatoes to microprocessor chips, from Canadian natural gas discovery to Japanese motor scooters. These ("story"-like) chapters are interspersed with about an equal number of other ("sermon"-like) chapters that spell out the message of the book and attempt to drive it home by varied repetition.

Gilder is a highly talented writer. He has done a good deal of homework, and he presents his sermonic message in lively, persuasive prose that squeezes every ounce of virtuous punch from his inspiring accounts of entrepreneurial courage-and-sweat. What is Gilder's message? And why might honest and thoughtful economists greet it with about equal doses of exasperation and admiration?

Gilder's thesis is that the capitalist economy has been seriously misunderstood by just about all economists, starting with Adam Smith in the 18th century. Smith, Gilder asserts, had a "concept of the economy as a great invisibly guided 'machine' in which capitalists are tools of the 'market.' " This view, Gilder argues, is utterly fallacious in failing to see that the virtues of capitalism arise from capitalists being leaders rather than followers, from their being genuine creators rather than merely obedient servants to consumer demand. (Even economists of the Austrian School, whom Gilder concedes to have been the most cognizant of entrepreneurs, are guilty of seeing them as "somehow responding to opportunities created by the market," whereas, he urges, these opportunities are in fact *created by* the aggressive and original initiative of these very entrepreneurs.)

This fundamental failure by economists to understand capitalism has led them to see stagnation where in fact dynamic development is occurring, to misinterpret economic statistics, and to prescribe disastrous public policies. "As entrepreneurs accelerate the processes of creative destruction that impel all economic advance, the economists measure the destruction, but not the creativity. They see the sinking value of existing capital but neglect the new ideas, hopes, enthusiasms, and plans of entrepreneurs."

Gilder, however, does not confine his eloquent preaching to the enunciation and elaboration of the theme that capitalism is a perennial process of creative destruction, as the economist Joseph Schumpeter so ably described, especially in his seminal work, *Capitalism, Socialism and Democracy*, published in 1942. Had Gilder confined his discussion to the process of creative destruction, this reviewer would have little to feel exasperated about, except perhaps in regard to Gilder's apparent belief that possibilities for entrepreneurial action are confined to small, self-owned businesses. The Schumpeterian theme is undoubtedly a valid one, both in its understanding of the dynamics of capitalist progress and in its indictment of many, many economists—but surely *not* Adam Smith!—for not recognizing this (either altogether, or with sufficient appreciation of its centrality). A good deal of the exciting tales of entrepreneurial derring-do contained in this book serve admirably to illustrate this theme. Unfortunately, Gilder sees his mission as extending beyond the articulation of these important insights.

For Gilder, it appears, an equally important objective of the volume is to flesh out views that he had outlined in earlier work, views which, to this reviewer, are far less acceptable. These flawed views are so interwoven with Gilder's valid message as to seriously compromise his entire perspective upon the capitalist process. This is all the more distressing in that nothing in Gilder's valid message really depends upon these other, less-valid, views.

Gilder is at great pains throughout the volume (*a*) to portray successful entrepreneurs (Gilder never does dwell upon the unsuccessful ones) as *moral heroes*, imbued with noble religious (or quasi-religious) ideals; (*b*) to present entrepreneurs not as *responding* to consumer demand but—in explicit supply-side fashion—as *generating* demand through their own wholly original and spontaneous creativity; (*c*) to argue that the primary motivation that drives entrepreneurs is neither selfish nor crass but altruistic. All this is, at best, irrelevant and unnecessary, if not downright wrong.

the book case

No doubt many successful entrepreneurs are morally attractive individuals, although few will be persuaded that their primary motive is to benefit the public without regard to their own well-being. No doubt many of these entrepreneurs owe their success to wholly admirable qualities of grit and courage, inspired vision, and sensitivity to the needs of others. But nothing in the economic role of entrepreneurs—a role so well understood, in broad terms, by Gilder—*depends*, as a general matter, on their being moral heroes. Even if entrepreneurial alertness and creativity turned out to be closely correlated with the most repulsive of human traits imaginable, we would still be compelled to recognize, grudgingly perhaps, the primordial importance of the entrepreneurial role for capitalist growth and prosperity.

Gilder weakens his case for recognition of the social significance of the entrepreneurial contribution by diverting the attention of his readers to the moral heroism—let alone the "altruism"—he sees in the exciting stories he tells us. To be sure, a host of writers have committed the symmetrical error of *attributing* capitalist progress entirely to the ruthless rapacity of unattractive robber barons—but *that* hardly justifies Gilder's no less misleading treatment.

Nor does Gilder's supply-side emphasis fit comfortably into his major theme. Certainly entrepreneurship may be originally creative in the most profound sense. Yet to see this as exemplifying a certain primacy of supply over demand is quite mistaken. What the original and creative entrepreneur creates must, after all—if the entrepreneur is indeed successful—directly or indirectly *anticipate the desires of consumers.* The measure of entrepreneurial success is the degree to which the entrepreneur is able to place before the consumer goods and services *that the consumer finds to his liking* (even though, as Gilder correctly notes, the consumer may not have dreamed of these goods and services until this moment).

To understand, as Gilder correctly does understand, that entrepreneurs "solve problems" for society is, after all, to recognize that the social value of entrepreneurial creativity lies in its ability to cope with *independently existing* problems—that is, to better satisfy the needs of the consuming public. To recognize, as Austrian economists have done for over a century, the primacy of demand is not to claim that demand chronologically precedes supply. Nor is it even to claim that consumers recognize, before having been shown goods already produced, that these goods are indeed attractive to them. Rather it is to understand that the driving motivations of all suppliers, including the entrepreneurial drive that motivates them all, are directed toward the anticipation of what will please the sovereign consumer—once he is shown what has been made available. It is because of this that market dynamics are propelled, ultimately, by the consumer, whose own sense of well-being must in the last analysis be the decisive measure of economic success.

Gilder is wholly on target in criticizing economists, in general, for failing to understand the entrepreneurial dynamics central to the market economy. It is unfortunate—and entirely unnecessary—that he too has exposed himself, in turn, as a target for legitimate criticism by the very "experts" whose pretensions he has so properly punctured.

Israel Kirzner, professor of economics at New York University, is the author of Perception, Opportunity, and Profit *and* Competition and Entrepreneurship, *among other works.*

BUREAUCRACY vs. ENVIRONMENT

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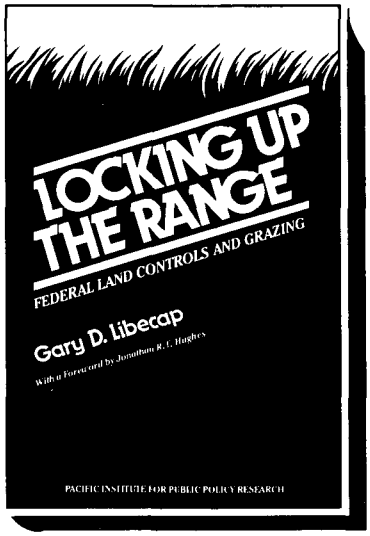

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Ayn Rand's Literary Journey

By Stephen Cox

The Early Ayn Rand: A Selection from Her Unpublished Fiction, edited by Leonard Peikoff, New York: New American Library, 387 pp., $16.95

The Early Ayn Rand is a book that one reads with a sense of regret. Author of the bestselling novels *The Fountainhead* and *Atlas Shrugged*, Rand was also a forceful voice for free-market individualism. This new book contains the last of Rand's imaginative writing that may ever appear in print. But most of it is greatly inferior in quality to the work pubished before her death in 1982. Yet, although the new book brings to light no hidden masterpiece, no long-awaited fifth novel, *The Early Ayn Rand* is an important—and a very interesting—record of Rand's literary and intellectual development.

In making his selections from Rand's manuscripts, Leonard Peikoff, her friend and the executor of her literary estate, has omitted such items as the stage version of her first novel, *We the Living*; her screen adaptations of other people's work, when she was working in Hollywood; and one early short story. He has included four stories from the late 1920s; a synopsis for a film that was never produced (*Red Pawn*, 1931–32); two plays, *Ideal* (1934) and *Think Twice* (1939); and a total of 49 pages cut from *We the Living* and *The Fountainhead*.

The best piece in the book is probably *Her Second Career* (1929), an amusing story that shows Rand developing the penetrating wit that was to make her one of the greatest political and social critics in American literature. With an assured command of concrete imagery, learned on the spot in Hollywood, Rand describes the sad adventures of a film star who has made herself famous through nepotism and "ballyhoo" but now wishes to prove that she can start all over again and succeed through merit alone. Another comic story, *Good Copy* (about 1927), is too slight and silly for the printed page; if it had been put to use in the movies, however, it might have been turned into a pretty good "screwball comedy," as un-Randian as that may sound.

Most of the other selections are not worth salvaging for their aesthetic contribution alone, and Peikoff is right in emphasizing their value in seeing Rand's gradual self-education as a writer. The earliest story in the book, *The Husband I Bought* (1926), is as bad as bad can be—light-years away from what Rand scholar and philosopher Wallace Matson has called "the luminous and vigorous style" of Rand's mature writing.

Subsequent works in the collection show her struggling to give succinct and forceful portrayals of a series of diverse characters (*Ideal*); trying to combine suspense with philosophical exposition (*Think Twice*); working to intensify her imagery and turn concrete detail into telling symbolism (*Red Pawn*). Her experiments often fail, but they always exhibit the drama of a determined mind confronting serious problems.

UPI/BETTMANN NEWSPHOTOS

Ayn Rand (1905–83): The novelist-philosopher's early works reveal her gradual self-education as a writer.

Several of the ruling ideas of Rand's mature writing take shape in these early works, although the shape is sometimes an ungainly one. Having escaped from the Soviet Union to a new but uncertain life in the United States, Rand shows an absorbing interest in the pursuit of happiness—a wild, heroic, nonrational, and even suicidal happiness. In *Red Pawn*, one of the heroes allows himself to be executed, deriving immense satisfaction from knowing that his lover can thereby escape to freedom. In *The Husband I Bought*, the heroine proudly sacrifices her life so that her husband can have a chance for happiness with another woman. The beneficiary of this sacrifice is an incompetent parasite, but he somehow makes the heroine ecstatically happy, so rational standards are not allowed to interfere.

As late as the first edition of *We the Living* (1936), Rand had not, in fact, begun to place much emphasis on the value of reason, though in that book she does offer superb descriptions of the evil effects of political *un*reason. The emphasis on freedom, during her early years, is generally an emphasis on the freedom of certain exceptional people to pursue happiness in their own way. These people are the "few" who "want the highest possible" and are willing to fulfill what one of them calls "our duty to ourselves....You *want* it. That's the highest of all reasons."

In *Ideal*, Rand's interest in the "few" takes a strange turn. The play's basic concept is a clever one: a great actress searches out her admirers, trying to discover whether they can bear to be confronted by their professed ideal. Only one of them can—a hero-worshiping nobody who achieves perfect happiness in dying (needlessly, as it turns out) in her defense. The act of allowing him to do so is described by Rand's heroine as "the kindest thing" she has "ever done." This is a striking way to end a play—but not, surely, a very inspiring way to do so.

Altruism becomes the major issue in *Think Twice*, a rather drab, plot-heavy work that still manages to give promise of better things to come. Here a secretive inventor—a blurry sketch for John Galt of the future *Atlas Shrugged*—does battle with a malignant partisan of "humanitarian" self-sacrifice; this latter character is a distant relation of the magnificently malignant Ellsworth Toohey, star villain of *The Fountainhead*, then in progress.

The Fountainhead (published in 1943) presents a powerful synthesis and a careful refinement of the views that Rand had been developing. Some of her problems at this stage are revealed, however, by a sequence of previously unpublished passages from the novel's manuscript.

The passages describe the affair of her hero, Howard Roark, with one Vesta Dunning, a lively and talented but imperfect character. Roark reacts to her with his normal egoism, although this time he carries it to an extreme of cold-blooded arrogance. Rand sympathizes, as elsewhere, with Roark—at least she does so officially—but she has Vesta deliver a vigorous, and rather impressive, rebuke of Roark for being "closed" and "finished" and blind to everything

"gay and simple and pleasant."

The literary effect is confused, as if Rand were not entirely clear about what kind of person she wanted her hero to be. She certainly did well to suppress the offending passages. Yet perhaps she would have done better to retain the Vesta relationship and use it to improve Roark's understanding of the point at which purposeful autonomy deteriorates into gratuitous self-isolation.

For people who want to know more about Rand the person as well as Rand the thinker, Peikoff's introduction and notes provide valuable information. Though this information about Rand's life might be even more plentiful, it does illuminate some interesting sides of her many-faceted character.

To cite some examples: Rand loved mystery stories, yet she remarked realistically that she could never "write a series of mysteries, because everyone would know who the murderers were." After finishing her last novel, *Atlas Shrugged*, Rand wanted, as Peikoff says, "to write a pure adventure story without any deep philosophical theme"; she chose the hero's name, but she never wrote the story. Rand and her husband owned a pair of toy lions named Oscar and Oswald, and in their honor (and probably that of O. Henry), she signed some of her stories "O. O. Lyons."

Such anecdotes help to reveal a colorful personality too often hidden by the philosopher's mantle. One hopes that more of them will be brought forward by Rand's friends—and that the letters, journals, and lectures to which Peikoff refers in his introduction to this volume will join the list of her published works.

Stephen Cox is an associate professor of literature at the University of California, San Diego, and is the author of "The Stranger Within Thee": Concepts of the Self in Late-Eighteenth-Century Literature *(University of Pittsburgh Press).*

Lessons from the Great Energy Crisis

By Charles Maurice

Creating Abundance: America's Least-Cost Energy Strategy, by Roger Sant et al., edited by James Bishop, Jr., New York: McGraw-Hill, 166 pp., $14.95

The energy crisis of the '70s is certainly over. Yet we continue to hear—from self-appointed consumer protection groups, environmentalists, many of the media, and lobbyists—statements such as the one cited in the postscript to *Creating Abundance*: "The Administration and the Congress must recognize that the nation's energy future is not just a matter of chance, determined by uncontrollable market forces, or unpredictable resource shortages.... What is needed most is a recognition by our national leaders that the important choices before us cannot be blindly left to the market place and that by planning wisely, we can safeguard the national interest while meeting our energy needs."

This conclusion, reached by 14 major environmental groups in their joint 1982 report on President Reagan's energy policies and programs, is arrant nonsense. Yet we are hearing many others saying essentially the same thing, at the same time that OPEC is struggling to buoy up sagging oil prices.

If they were not so dangerous, such silly conclusions and recommendations would merely be laughable. But many influential people still believe that the government needs to "do something" about our energy supply. This is why *Creating Abundance* is so valuable.

In this excellent book the authors argue, quite convincingly, that government did not end the energy crisis of the '70s. If our government did anything, it prolonged the crisis and increased its severity. Consumers and businesses, acting in their own self-interest, were responsible for the present improved energy situation.

The guiding light of the book is that petroleum, natural gas, coal, and so on are demanded because they provide services, not merely because they provide energy. People do not want energy for its own sake. They want energy *services*—mobility, heat, coolness, and comfort. Energy by itself accounts for only a portion (sometimes a very small portion) of the total cost of these services. Thus the objective of people who consume these services is to minimize the *total cost* of the services, not simply their energy cost.

Since they want to minimize total cost, people respond to a higher price of energy in three separate but related ways: (1) they conserve on the services

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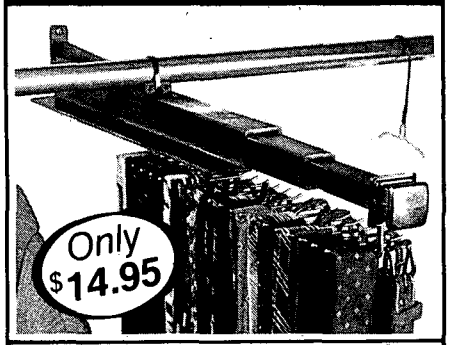

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themselves—they drive more slowly or keep their homes cooler in winter; (2) they replace the more-expensive energy ingredient with other goods that help provide the services—home insulation was substituted for natural gas, or more-fuel-efficient automobiles for gasoline; (3) they invent methods to change the technology used in the production of the energy service so that less actual energy is used—improvements in truck design have reduced fuel consumption.

Remember the way politicians and the media harangued us after the oil embargo in 1973: We would just have to live with less. We must learn to do without. We must make sacrifices. As Roger Sant et al. show, in case after case after case, it just wasn't so. We did not have to learn to live with less. We had to learn to do it differently. We had to provide our energy services in a different way, a way that used less pure energy. After all, it wasn't the energy we wanted to consume, it was the services. And people did learn how to find a lower-cost method of providing these energy services.

In Chapters 3 through 6, the authors document the methods employed during the past decade to change the least-cost method of providing energy services. First, they point out the ways that improved technology and substitution have reduced the energy used in providing the service of mobility, at a lower cost. Next, they turn to the same types of developments that made comfort and convenience in buildings more affordable. They then show how the energy cost in industrial products has been lowered. Finally, they discuss some alternatives to traditional fuels that have been and are being developed.

So the doomsday that so many expected did not come to pass. We did not have to learn to do with less. We had to—and did—learn to do it differently.

Given that we have been so effective in reducing energy consumption over the past decade, is there any reason to believe that we will become suddenly incompetent in the near future? The authors don't think so, and for good reason.

Doomsday forecasters are fond of projections that show a resource Armageddon in the year 2000. The authors of *Creating Abundance* respond by making two projections of US energy consumption to the year 2000. One case assumes continuing historical patterns of investment in energy production. The other assumes that all cost-effective energy investments are made. Under the least-cost assumption, the total US demand for fuels is projected to remain almost constant, even though the demand for energy *services* would grow about 2 percent per year (with GNP growing at 2.6 per year). Quite interestingly, under the assumption of historical patterns—business as usual—total demand for energy is projected to be only about 10 percent higher than under the least-cost assumption, with the total cost of energy services also 10 percent higher.

Several prevalent energy myths are also debunked by the authors: that vastly higher energy prices are inevitable, that environmentalists caused the energy problem, and that oil imports are the problem. Many of the refutations are fascinating.

In the final chapter, "What Else Is Required," Sant et al. conclude that government should reduce its role in energy policy. After all, as they show many times, it was the private sector—not government—that got us out of the mess we were in during the 1970s.

This very optimistic book does end on a rather gloomy note, however. How will

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similar resource problems be handled in the future? the authors ask. Did we learn anything from the energy crisis? The answer seems to be no.

The authors prophesy that water will be our next resource crisis and that government will respond in the same way it did with energy in 1974. A severe nationwide drought will occur, and the media will call it a "crisis." The president will announce a cabinet-level Water Department. Congress will not allow water prices to rise to market levels, because the rich could pay their way and the poor would suffer. And on, and on, and on.

We should hope this depressing story will not come true. Maybe if enough people read the evidence, like that brought forth in *Creating Abundance*, the same mistakes won't be made when the next crisis occurs.

Charles Maurice teaches economics at Texas A&M University and is the coauthor, with Charles Smithson, of The Doomsday Myth: 10,000 Years of Economic Crisis.

Tax Rebellion—A Perennial Protest

By John McClaughry

Secrets of the Tax Revolt, by James Ring Adams
San Diego: Harcourt Brace Jovanovich, 346 pp., $16.95 paper

"Is the U.S. Tax Revolt Ending?" So asked the *Wall Street Journal* in a recent headline following defeat of four antitax ballot initiatives (California, Michigan, Oregon, Nevada) in the 1984 elections. If history is any guide, the answer is almost certainly no. Tax revolts will continue so long as we live under political systems where politicians can gain power and rewards for raising, manipulating, and spending tax dollars that are extracted from citizens who would rather keep and spend the money themselves.

Such, at least, is the historical verdict announced in *Secrets of the Tax Revolt*, a work that stands in relation to its subject as Theodor Mommsen's histories to Rome or Francis Parkman's to the American West. In this work, James Ring Adams, a member of the *Wall Street Journal*'s editorial board, examines the historical development of various theories of taxation, popular (and unpopular) reactions to their application, the recurring phases of fiscal crises, the anatomy of tax revolt, and most importantly, the economic and political lessons for our time.

Adams is a confirmed supply-sider, a believer in the idea that taxation diminishes things taxed. The concept permeates Adams's book. The book's major value, however, is not in any presentation of theory but in its careful examination of the economic results of tax raising and tax cutting in various states from early times to the present.

Adams defines three great waves in public response to taxation. In the first, concurrent with the movement for independence from Great Britain, the rallying cry was "No taxation without representation." That was fine as a slogan for severing the bonds of empire, but it wore thin when—especially as property qualifications for voting were removed—the representatives of the people began to increase taxes beyond what their constituents thought right.

To escape this taxpayer resistance without curtailing spending, politicians hit upon the idea of debt. Issuing state bonds permitted spending now, with the costs of retiring these debts spread across years into the future. Popular resistance to public debt sprees were notably associated with the Jacksonian era, which also featured strong opposition to the special privileges of banks and referendum approval for public debt issues. This was the second wave of public response to taxation.

The third wave of taxpayer revolts focused on constitutional limitations on the power to tax, requiring not only that taxation be proportional and uniform but also that it be limited in amount. This wave began in the South as a response to wild-spending Reconstruction governments, and it continues to the present day.

By careful historical and contemporary analysis of the tax experiences of eight key states, Adams illustrates sound policy and folly alike. His landscape is peopled with colorful figures on both sides of the fiscal divide.

Among the tax fighters are the frontier rebel Daniel Shays of Massachusetts, who was suppressed with armed force; the shrewd country doctor Michael Hoff-

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man of Herkimer, New York, who dominated the New York "Peoples' Convention" of 1846; Gov. Oran Roberts, the "Old Alcalde" of 19th-century Texas; Lawrence A. Chehardy, the corpulent assessor of New Orleans who disapproved of taxing residences; Robert Tisch of Shiawassee County, Michigan, whose populist appeal produced a statewide uproar; and Howard Foley and K. Heinz Muehlmann, the high-tech growth twins who became effective advocates of supply-side policies in Massachusetts.

The most prominent names on the other side are contemporaries. Foremost among them, due to his insatiable passion for governmental spending, taxing, borrowing, and evasion of limitations, is the late Nelson Rockefeller of New York. Others who qualify for the taxpayers' curse include Mayor John V. Lindsay of New York City, Gov. Francis Sargent of Massachusetts, Gov. John Gilligan of Ohio, and the early Ronald Reagan, governor of California. Reagan qualifies for this Hall of Shame by the massive tax raising of his first term as governor, making use of a viciously progressive income-tax schedule. Happily, in the light of subsequent developments, Reagan by 1969 had accumulated a budget surplus that he rebated to the taxpayers and by 1973 was actively promoting a California constitutional amendment to limit taxes to 7 percent of total state personal income. This Reagan measure, Proposition 1, lost narrowly in a 1974 referendum but paved the way for the Jarvis-Gann Proposition 13 of 1978, the Hiroshima of the modern tax-limitation movement.

The Adams narrative, though, is not simply a journalist's history of taxers and tax fighters. He carefully examines the economic performance of states in the light of their tax policies, and his final nine-page chapter is a fountainhead of distilled wisdom. The secrets of the tax revolt can be summarized concisely. Economic growth requires falling tax burdens and rising technologies. Forget special tax breaks for business. Lower the personal tax burden. Assure the taxpayer—and particularly the entrepreneur—that the rate of change of the tax burden is downward and will not be reversed. Use tax dollars to produce a well-educated workforce and citizenry, so necessary to responsible growth.

Adams's case in support of these prescriptions is strong. States that followed this formula, such as modern

New Hampshire and Massachusetts, are alive and well. States that rejected it in favor of ever more taxes and government intervention, like Ohio and Michigan, are in trouble. It would be worthwhile if the legislators of such troubled states studied these lessons carefully.

The flaws of this book are few and minor. In wading through the views of the ancients, from Arab historian Ibn Khaldun to Locke to Montesquieu to Adam Smith, it gets off to something of a slow start. Adams's only conspicuous failure of analysis is his too-superficial negative judgment of the Jacksonian free-banking era. As economic historians such as Hugh Rockoff and Lawrence H. White have shown, the defects of "free" banking were not a result of the inability of the free market to produce currencies of stable value. They stemmed from the insistence of state governments, notably in Michigan, that the private banks purchase large amounts of state debt and that their inflated currency issues be insulated from the discipline of prompt redemption across state lines. The free-banking era in New England, coordinated by the Suffolk Bank of Boston, without the foregoing defects, worked exceptionally well.

But this is a minor point. Throughout the work Adams constantly and effectively drives home a powerful economic message. Too much taxation, too much government, and too much public debt inevitably lead to the suppression of wealth creation, an exodus of would-be entrepreneurs, shrinkage of the tax base, and fiscal crisis. Absent external or fortuitous rescue, that crisis can be met by reversing the defective policies. It is a tragedy that this plain and simple lesson from 200 years of American history has to be learned over and over again.

John McClaughry spent a discouraging year as a senior policy advisor in the big-spending Reagan White House in 1981. He now heads the Institute for Liberty and Community in Concord, Vermont.

The Errant Education Elite

By Denis Doyle

NEA: Trojan Horse in American Education, by Samuel L. Blumenfeld
Boise, Idaho: Paradigm Co., 284 pp., $7.95 paper

Samuel L. Blumenfeld's new book, *NEA: Trojan Horse in American Education*, bears a superscript across the top for any prospective reader who may not know what he's in for: "The first full-length exposé of the National Education Association," the larger of the two nationwide teachers' unions.

One wonders, for which readers are such books written? Not the National Education Association (NEA) itself, nor the PTA, and certainly not the research or policy community of either the left or the right. Its strident tone prevents it being taken seriously. It is a case of preaching to the faithful, a book designed to confirm the worst fears of the New Right about the old bugaboo the NEA and its puerile brand of creeping socialism.

Although the book gets off to a reasonable start with chapter one, "How We Got into Public Education," the true nature of the exposé to which the reader may look forward appears in chapter five, "Turning Children into Animals." Other equally provocative and inflammatory chapter titles are sprinkled throughout this 21-chapter book: "The Education Mafia," "The Conspiracy Against Literacy," "The Soviet Connection," "The Drive for Power," "Toward Educational Dictatorship."

The fundamental problem with books of this genre is that they so far overreach that they cannot sustain themselves. If they were true we would be lost, so sinister and so clever are the masters of deceit that hold us in thrall. And if they are not true, they must be treated as exaggeration and overstatement.

The problem is not simple flamboyance and hyperbole—"The Education Mafia," for example. The problem is fundamental error. The NEA leadership is less like a *mafioso don* and more like a punch-drunk fighter, reeling toward the ropes. NEA membership is declining, and the leadership is out of touch with both the mood of the American people and the sentiments of its own rank and file. The vaunted radicalism of the leadership does not translate into votes—in 1980, only slightly more than half of teachers polled indicated that they voted for Jimmy Carter.

The fact is that the typical teacher in this country is sober and responsible, socially conservative, and often politically conservative. From an analytic standpoint, the interesting question is how a union leadership drifted so far left—certainly far to the left of its own membership—in so short a time. Two decades ago the NEA was a limited and ineffectual "professional association," more afraid of the American Federation of Teachers than of any other organization in American life.

The collateral question, then, is how long can the NEA leadership cling to its positions when both the public and the rank and file view them with hostility? It is, of course, precisely the problem the Democratic party faces.

The notion that the NEA leadership is a menace to American society gives them too much credit; they are obdurate, wrongheaded, softheaded, out of touch. Being all these things, how can they lead? They cannot. Unless, and only unless, one is prepared to believe in conspiracy theories of politics, an idea so uncongenial and so foreign to the American experience that it lacks credibility.

Indeed, it would be a relief to find that the NEA leadership *did* have the wit and intellectual capability to conspire and work their way through difficult tactical and strategic problems. They would at least then be worthy opponents. But no such claim can be seriously advanced. Rather, they are most accurately characterized as welfare-state social democrats of the Swedish variety—long on liberal rhetoric, short on careful reasoning, and losing their constituency as each day passes.

The problem in dealing with the NEA at book length is that the narrative cannot sustain the subject. By implication and explication it suggests that the NEA is more powerful than it is. Ironically, only the NEA is likely to draw comfort from this line of reasoning.

More to the point, the general case for private schools and the specific case for tax credits and tuition vouchers does not and should not rest on the NEA's stands on the issues. The NEA may push the American public toward private schools by its behavior, but the philosophic foundations of private schooling do not stand on claims about NEA pig-headedness and stupidity. What if the NEA took Blumenfeld to heart and changed its ways? Suppose the NEA backed prayer in school, opposed abortion, attacked racial quotas, taught capitalist principles with enthusiasm, and endorsed a strong defense? In the late 19th century the NEA did support most of these positions.

the book case

Would the case for private schools be weaker? Only if private schools achieve their legitimacy by juxtaposition to some short-run political instrumentalism. The NEA excesses add weight to the argument, but the raison d'être for private schools exists without reference to it.

The critique the NEA deserves is not a book, but one that is short, persuasive, and to the point. As it happens, it has already been written by Chester E. Finn, Jr., for *Commentary* magazine ("Teacher Politics," Feb. 1983).

It is a pity Blumenfeld's book is not more carefully crafted and more tightly reasoned, for if it were, it might reach a larger audience. As it is, it seems designed to circulate within a community already convinced that the NEA is public enemy number one.

Denis Doyle is director of Education Policy Studies at the American Institute for Public Policy Research in Washington, D.C.

life & liberty

(Continued from p. 52)

the middle of the living-room rug does not differ significantly from the way one deals with a toy poodle that does the same? After all, do children not have goals, choices, feelings, perceptions?

As an undergraduate in psychology, I was never very good. I think this is why a lot of the common-sense impressions about children's behavior that I brought from my childhood home and into the classroom never completely evaporated. Let me tell you a story.

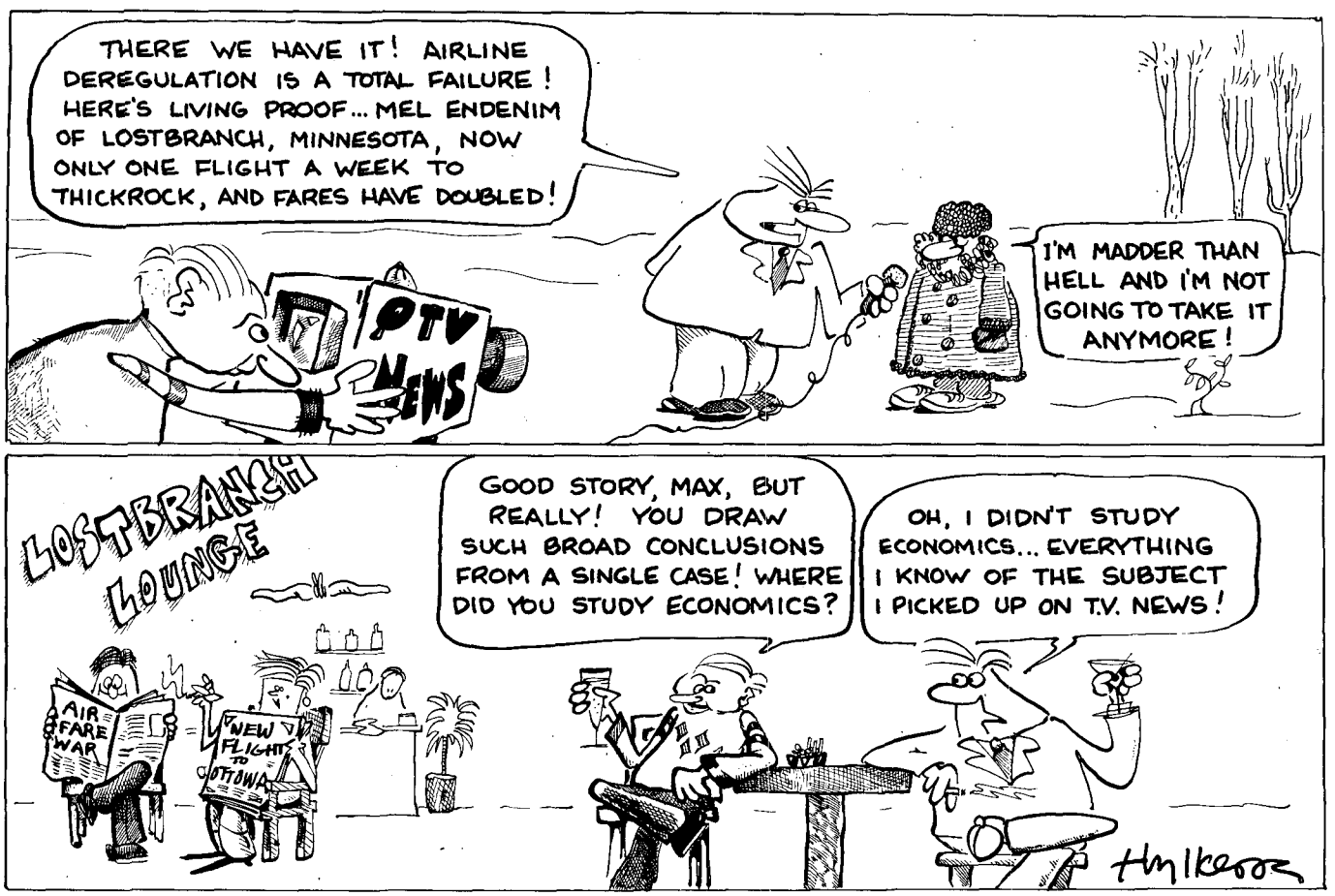
I was about five years old. I was walking with my mother down a street in Queens. We came upon my little friend and next-door neighbor, Guido, who was with his mother. The spectacle I espied went thus: Guido wanted a toy canteen he saw in a store window. His mother said he could not have it. Guido then commenced a fit that included screaming, stomping, crying, and generally making himself quite an embarrassment to his mother. She quickly gave in. The next day, there was Guido with a new canteen. I took this in with all the curiosity of a bright five-year-old, one with a list of ends yet unacquired. Suddenly, I thought, I had the means.

The next time we were in a store, I asked my mother for the first thing I saw, a phonograph record. She predictably said no. Here was a chance to experiment. I jumped up and down and gave a few feeble moans. This was no small feat, as I was a heavy child and could not pull off a tantrum with the same grace and style as could Guido. "This," I thought to myself, "ain't gonna work." But it did. My mother quickly acquiesced. She paid for the record.

It was placed in a paper bag and put into my little paw, just to quiet me. I was shocked. I didn't even really *want* the stupid thing, which, I swear to you, was a yellow 78 of Jimmy Durante singing "Rudolf, the Red-Nosed Reindeer." But

rudebarbs

Randall K. Hylkema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it worked! While I was wasting my time discovering object permanence and representational thought, Guido had figured out what makes the world go 'round.

I don't know for how long this method worked. But I do remember being somewhat frightened by it. When would my mother smarten up? I was feeling something like fear. I remember only two more such incidents. One time, again in a store, I remember seeing a toy policeman's kit. It had everything the little aspiring Nazi could want—toy handcuffs, toy gun, toy nightstick, you name it. I asked Mom for it. She said no. I jumped up and down. I got the kit. "Life," I thought to myself, "can be so simple."

But all things come to an end. With Mr. and Mrs. Barone, it simply had to, because neither was prone to such transgressions of logic for any appreciable length of time. And fortunately, neither was an adherent of any of the latest learning theories that advised ignoring my tantrums in the hope they'd simply disappear. No. My parents had too much respect for both me and the peace for that.

In another store, I had yet another tantrum. My father stopped and took the time to explain to me carefully that if I didn't stop, if I ever again tried another tantrum, he was systematically going to rearrange several small but inessential bones around my face and neck. He was quite angry. But I wasn't—I was relieved. I was never comfortable with the thought that the restraints placed upon me by my mother and father were so malleable from day to day; it burdened me with the task of trying to find out, daily, just how far I could go.

I was not a prodigy. I am convinced that the way I was able to watch the world and make some inferences and deductions is much the same way most children are able to understand and act in their environments. To deny this is to deny what is essentially human about children. It's precisely this that the behaviorist chooses to ignore.

I didn't learn a heck of a lot about children when I went to graduate school, even though I really tried. I *did* learn an awful lot about rats. I can remember teaching them to bar-press for food, then trying to get them to stop bar-pressing at different levels of hunger. As you might guess, hardly a day goes by that I don't refer to those results in my practice of psychology with children!

I remember staring into that Skinner box, looking at the rat, thinking, "If only I could tell that rat what I want from him! If only he knew!" Then I wouldn't have to let him do a little bit of this and a little bit of that, until he finally stumbled across the thing that I wanted. If only he knew! But, of course, if I had found a rat that knew, one that when simply asked to bar-press 15 times for a pellet of food did just that, the august faculty would have been uninterested. "Look!" I might have said. "When I tell the rat to bar-press 15 times, he does it! He *knows*! Damn it, *he knows*!"

"Silly!" they would have replied. "The rat only *thinks* he knows!"

Which brings us back to my friend Jill. Don't let them kid you. Ignorance combined with apathy is not the worst danger a child might face. I've seen it time and time again; sometimes there's random benefit to benign neglect. I am much more afraid of misinformation, especially when combined with ardor. So as I said before, my friend Jill the other day informed me that she's going to have a baby, and I am worried.

Stephen G. Barone is a school psychologist and free-lance writer.

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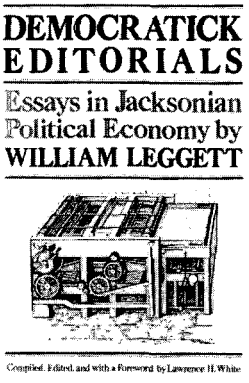

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Compiled, Edited, and with a Foreword
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But there were some who blabbed. *The Los Angeles Times, The San Francisco Chronicle, The Chicago Sun-Times, The St. Louis Post-Dispatch* were some of the papers that felt that criticism of *The Washington Post* should not be kept secret. Some local television stations also showed the demonstration.

The Washington Inquirer carried the best report of all. Under a banner headline that read, "Post Hurts Nation, Press," it reported that Reed Irvine, chairman of Accuracy in Media, Phil Nicolaides, executive director of Accuracy in Media, Gen. George Keegan, retired chief of Air Force Intelligence, and John Greaney, former associate general counsel of the CIA had strongly denounced the irresponsibility of *The Washington Post* in revealing the secret payload of the shuttle. While they spoke, some 30 demonstrators chanted denunciations of *The Post* and brandished placards bearing such slogans as, "Pravda on the Potomac," "Who Elected the Post?" and "Boycott the Washington Pest." Irvine was quoted as saying that *The Post* had not only given aid and comfort to the enemy, as Secretary of Defense Caspar Weinberger had charged, but had also intensified the belief that journalists cannot be trusted to keep national security secrets. Phil Nicolaides said those responsible for this breach of national security should be fired by *The Post.* Gen. Keegan charged *The Post* was not serving the interests of freedom and was making it difficult for the U.S. to maintain adequate minimal defenses and intelligence.

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Aliens as Assets

Among the more deeply entrenched popular beliefs in this country is that the United States is being flooded with illegal immigrants—mostly from Mexico—and that these aliens are taking jobs away from willing Americans. Research scientist Joseph Martino, in our September issue, contested that belief ("Two Hands, One Mouth"), arguing that an "immigrant is a whole person," with "two hands and one mouth," who brings with him the means to provide his own sustenance and in this sense creates a job.

Recent evidence backing up this thesis comes from economist Courtenay Slater, formerly with the Commerce Department. Slater says that Census Bureau data confirm that illegal aliens benefit local economies: by creating large pools of low-cost labor in various areas, illegals attract businesses, thus generating additional jobs for the areas' legal residents and lowering prices for consumers, as well. Slater's analysis was published in the January issue of *American Demographics*.

Slater also estimated the number of illegal aliens in the United States and came up with a figure around 2 million. Often-quoted estimates of this figure have ranged as high as 12 million.

Home Is Where the Workplace Is

REASON's article last October on computer home work ("Telecommuting: Will the Plug Be Pulled?") described the liberating effect of home work for women in various walks of life. New confirmation of this came in a recent *Wall Street Journal* report on home-based businesses owned by women. It quoted an estimate by Marion Landis of the National Alliance of Homebased Businesswomen that more than 3 million women now own home-based businesses, including language schools, maid services, interior designing, and—of course—computer work.

"A home-based business appeals to women because of the low overhead, flexible hours, tax breaks, lack of commuting and, perhaps most important, the opportunity for greater involvement with family and child rearing," the *Journal* noted. Such advantages are not enough to satisfy Dennis Chamot, assistant director of the AFL-CIO's Professional Employees Department. In December, he argued that *all* home work involving computers should be banned for both semiskilled and professional workers. He contended that in

the past, government couldn't enforce labor legislation for home workers—and "if history is any guide, we can say with certainty that abuse of electronic homeworkers is inevitable." His conclusion: "An early ban would try to prevent a repeat of past experiences in a new guise."

But at least for the time being, home workers have history on their side. One indication of where that history is going was the startup of *Telecommuting Review: The Gordon Report*, a new monthly newsletter that disseminates information on products and services for the burgeoning field, as well as on legal and regulatory issues that telecommuting raises. (It was actually a recent issue of *Telecommuting Review* that reported AFL-CIO official Chamot's call-to-arms against telecommuting.)

Yet another auspicious sign for home work was the Labor Department's recent lifting of its 41-year-old ban on home knitting ("A Right Hook for Home Knitting," Further & More, Feb.). An anxious clothing and textile-workers union official Jack Sheinkman warned in a letter to the *New York Times* that there has been "a resurgence of the sweatshop system, of which industrial homework is an integral part." But his warnings fell on deaf ears. Indeed, Marion Behr of the National Alliance of Homebased Businesswomen and Omri Behr of Women Working Home, Inc., took him to task in their own letter to the *Times*.

"Homeworkers are a diverse and individualistic bunch of people," the Behrs explained. "They all realize that working at home is a great thing." Sheinkman had argued that home work is used to exploit illegal aliens. The Behrs agreed but urged that this is a rationale for changing immigration laws, not for banning home work. "I doubt if Mr. Sheinkman would be very popular with his Detroit colleagues of the U.A.W. if he advocated banning cars because of the carnage on our roads," they wrote. And they very eloquently concluded, "The true voice of the new work force is not the plea for Big Brother's smothering blanket of protection; it is the voice of free Americans just wanting the chance to work as they please and where they please, whether as employees or entrepreneurs."

And More

■ *Freeing the D.C. 2?* As economist Paul Feldman documented in our September 1983 issue ("Free the D.C. 2!"), the federal government owns—and badly manages—two commercial airports: National, in Washington, D.C., and Dulles, in Virginia, near the capital. Feldman proposed that the government, having no business operating commercial airports in the first place, sell National and Dulles to private operators. Now Transportation Secretary Elizabeth Dole has endorsed a recent advisory-commission suggestion that the government turn both airports over to an independent authority and that improvements at both be funded through tax-exempt bonds rather than through federal grants. Congress, the District of Columbia city council, and the Virginia legislature must all approve the plan.

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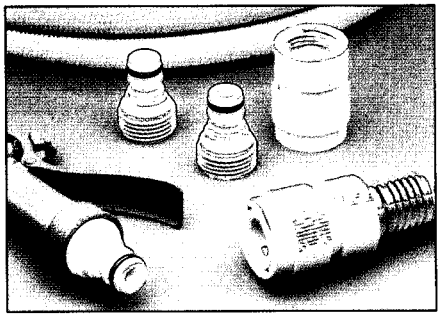

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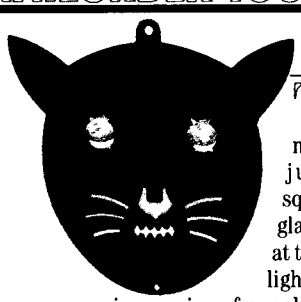

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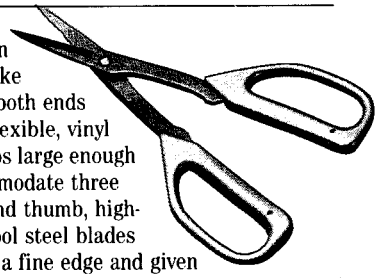
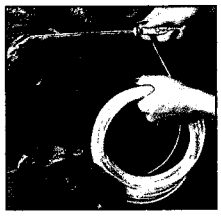
SUPER SNIPS



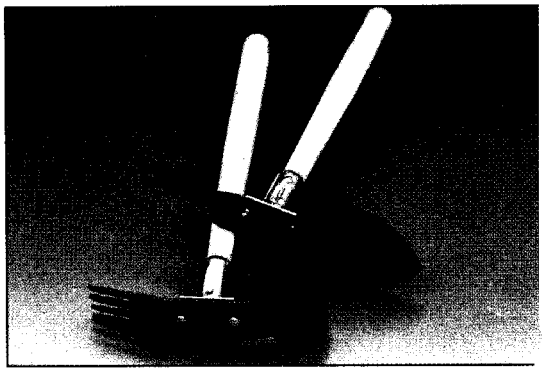
These garden snips, make sense at both ends — soft, flexible, vinyl hand grips large enough to accommodate three fingers and thumb, high-carbon tool steel blades honed to a fine edge and given a black anti-rust finish. The slender pointed 2" blades are perfect for slipping into dense growth to reach just the stem you want, yet sharp and strong enough for clean trimming and painless pruning. Superbly crafted by Joyce Chen for **$10.00** ($2.95) #A902.

HOUSE HOSE



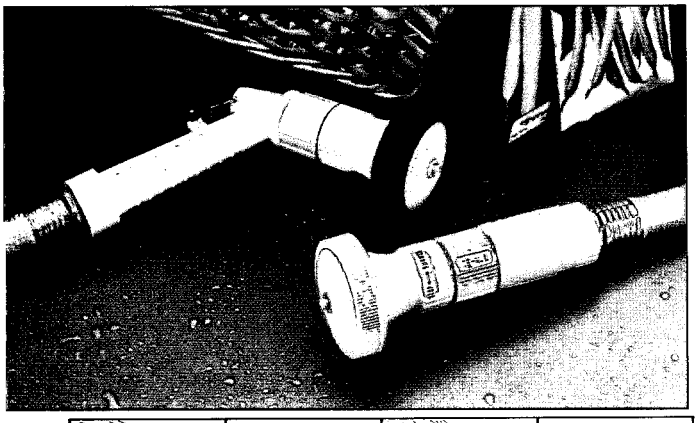
Do your houseplants run you ragged, back and forth, trip after trip, watering can in hand? What you need is an indoor garden hose to water them all in a single trip. The 50' House Hose lets you take a splashless stream of water where you want it, with on/off and adjustable flow control right at the handle. Separate misting attachment. This improved House Hose comes with dripless adapters to fit most kitchen or bathroom faucets. Special hose tends to recoil after use, simplifying put-away. **$14.00** ($2.95) #A1254. Two for **$25.00** ($3.95) #A12542.

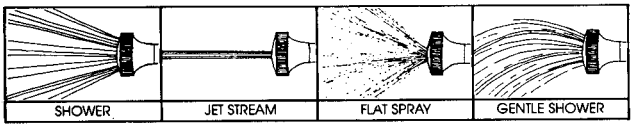
LIFETIME GARDEN TOOLS



This cultivating set, with combination heads — shovel, pick, weeder, and chisel chopper — will take care of just about any planting, weeding, rooting, cultivating, edging or cleaning job you have. (Campers can use them to dig fire pits and to trench tents, among other things.) These implements are light and their size is scaled for convenient hands-and-knees handling. The hardened steel heads are secured on 15" ash handles with sure-lock tops. They are also so well made that they really do come with a *lifetime* guarantee. If you like gardening now, treat yourself to these fine tools and see how much better it gets. Cultivating sets are **$21.00** ($2.95) #A545.

FLOW CONTROL HOSE NOZZLE





The Nozzle Five hose allows you to set the water flow to any of five positions. Use the shower setting for heavy watering, gentle shower for potted plants, flat spray for misting foliage and the jet stream for force cleaning patios, decks and gutters. The fifth setting is a convenient stop action. Nozzle Five is constructed of durable, non-corrosive plastic for **$11.00** ($1.95) #A481. Two for **$18.00** ($2.95) #A4812. We also offer the Nozzle Five hose nozzle with the advantage of a pistol grip (left) which gives you even more control over water flow. **$14.00** ($2.95) #A1046.

ORDERING INSTRUCTIONS AND GUARANTEE: *We ship via United Parcel Service wherever possible to insure prompt delivery. The price of each item is shown followed by its shipping and handling charges in ( ). Be sure to add the item price* ***plus*** *shipping and handling charges for each item ordered to arrive at the* ***total price*** *of each item. If you are not satisfied for any reason, return the article to us within 30 days, and we'll exchange it or refund the item price per your instructions.*

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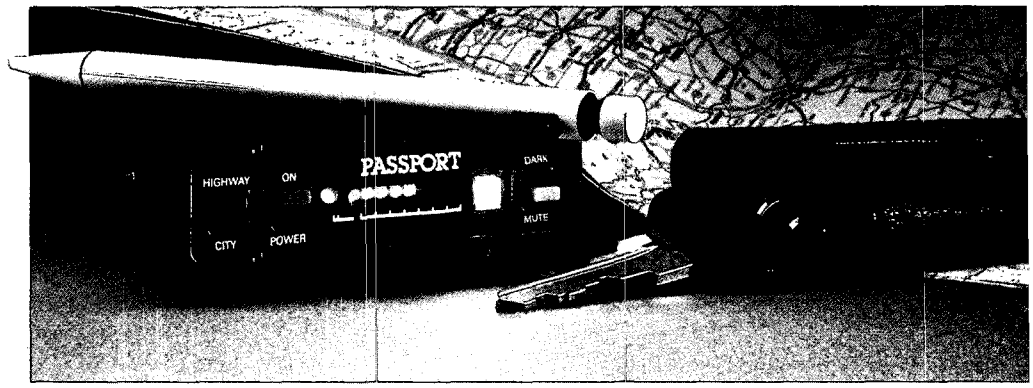

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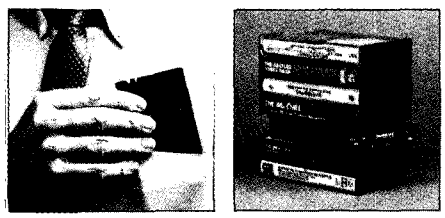
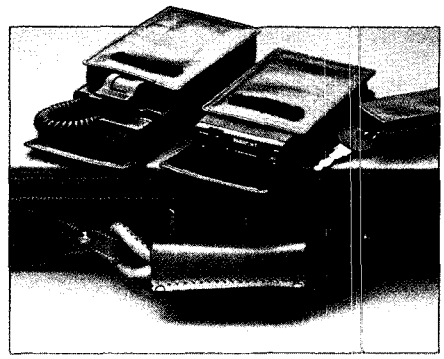


PASSPORT is about the size of a cassette tape.



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